

AN EVALUATION

Division of Gaming

Department of Administration

02-20

December 2002

2001-2002 Joint Legislative Audit Committee Members

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December 4, 2002

Senator Gary R. George and
Representative Joseph K. Leibham, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator George and Representative Leibham:

We have completed a biennial performance evaluation of the Department of Administration's Division of Gaming, as required by s. 13.94(1)(eg), Wis. Stats. The Division regulates the State's Indian gaming, pari-mutuel racing, and charitable gaming activities. In FY 2001-02, its expenditures totaled \$3.8 million in program revenue.

Indian gaming represents the most significant gaming activity in Wisconsin and is the State's largest source of gaming revenue. In 2001, tribal gaming revenue totaled \$970.9 million, and tribal gaming profits totaled \$428.3 million. Under the terms of renegotiated compacts that took effect from 1998 through 2000, tribal revenue from gaming activities has increased, and the tribes have provided more revenue to the State: in addition to annual payments of \$350,000 to help fund oversight and regulatory activities, they have agreed to pay \$24.0 million in FY 2000-01 and again in FY 2001-02. These payments are to be used for purposes that include economic development initiatives to benefit Native Americans in Wisconsin and tourism marketing.

The Division conducts three types of reviews—compliance audits, financial audits, and inventory reviews—to monitor gaming activities at tribal casinos. However, it has not conducted each type of review for all casinos. For example, the Division has conducted financial audits but not compliance audits at three casinos that account for 27.1 percent of the 14,354 electronic gaming devices operating in Wisconsin in August 2002. Compliance audits determine conformity with compact provisions. We have included recommendations to improve the Division's oversight of Indian gaming and have provided options the Legislature and the Governor may wish to consider for strengthening the Division's regulatory authority.

Declining attendance at Wisconsin's two remaining racetracks has contributed to a decline in racing revenue for the State. Revenue from bingo and crane games has also declined in recent years.

We appreciate the courtesy and cooperation extended to us by the Department of Administration's Division of Gaming. The Division's response is Appendix 4.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/PS/ss

The Division of Gaming in the Department of Administration is responsible for monitoring and regulating tribal gaming operations through its Office of Indian Gaming. The Division also regulates all activities relating to pari-mutuel wagering at dog tracks; charitable gaming (bingo and raffles); and crane games, which are privately owned but regulated by the State. The Division receives revenue from a number of sources, including tribal payments under compacts with the State, a pari-mutuel tax on money wagered at tracks, racing fees and fines, unclaimed racetrack winnings, and licenses and permit fees for gaming activities. Since fiscal year (FY) 1997-98, the Division's total revenue has increased from \$7.0 million to \$28.6 million, largely because Indian gaming revenue increased under compacts that became effective from 1998 through 2000. The Division's total expenditures also increased over this period, from \$3.0 million in FY 1997-98 to \$3.8 million in FY 2001-02.

Wisconsin tribes generate revenue through their Class III gaming activities (electronic gaming devices and blackjack); Class II gaming (bingo operations); and other activities associated with gaming, such as the operation of hotels, restaurants, and gift shops. Revenue from these activities totaled \$970.9 million in 2001. The tribes' net revenue from Class III gaming, which is the amount wagered less the amount paid in winnings, increased by 47.8 percent, from \$611.9 million in 1997 to \$904.1 million in 2001. Not all tribes experienced revenue increases, and tribal expenditures increased from \$390.2 million in 1997 to \$542.7 million in 2001. Nevertheless, in aggregate, tribal profits increased by \$158.2 million, or 58.6 percent, over this period and totaled \$428.3 million in 2001.

Within the past five years, the State has renegotiated gaming compacts with each of the 11 tribes. Under both the new compacts and the original ones, the tribes have agreed to pay the State \$350,000 annually as compensation for oversight and regulatory costs. The new compacts also require the tribes to make additional payments to the State based on each tribe's net revenue from past gaming activities. The amount owed for FY 2001-02 from all tribes is \$24.0 million.

Eight of the 11 compacts state that the Governor will undertake his best efforts to spend these additional payments for economic development that will benefit Native Americans living in Wisconsin and in the regions around the casinos, as well as for promotion of tourism within the state. Three compacts do not specifically address this issue. Funds

from tribal payments are distributed among several state agencies through the state budget process, and they support activities that directly benefit tribal members and a broader range of citizens.

The current tribal gaming compacts begin to expire in August 2003, and several issues will need to be considered as the renegotiation process begins. A primary consideration from the State's perspective will be the amount of gaming revenue provided to the State, both as compensation for oversight and regulatory costs and for broader purposes. A primary consideration from the tribes' perspective will be the length of the compacts and limitations placed on gaming activities on tribal lands.

In addition, some have questioned the level of funds provided by the tribes to the State. Based on our analysis of information available from five other states, we found that the percentage of Indian gaming revenue required to be paid to state governments varies substantially. Wisconsin receives a smaller percentage of tribal gaming revenue than three of five other states for which data were available. Two states—Iowa and Minnesota—receive tribal payments only for regulatory activities and do not receive tribal revenue for other purposes.

One of the Division of Gaming's primary roles is the oversight of Indian casinos. In FY 2001-02, the Department used an authorized staff of 14.00 full-time equivalent employees and spent \$1.5 million to monitor the tribes' compliance with gaming operations agreed to in their compacts. In performing these functions, the Division conducts three types of reviews: compliance audits, financial audits, and inventory reviews. However, not all casinos have been reviewed routinely, and on-site compliance audits have never been conducted at any of the Ho-Chunk Nation facilities, which account for 27.1 percent of the electronic gaming devices and 21.3 percent of the blackjack tables operating in Wisconsin. Gaming staff indicate they were denied access to the records needed to complete their reviews in July 1998 and June 1999.

Overall, the Division has conducted fairly limited financial audits of casinos. Since 2000, 12 on-site financial audits, which include a review of financial operations to determine whether financial statements prepared for the tribe are accurate, have been conducted at ten different casinos. In addition, only 14 inventory reviews, which determine whether electronic gaming devices at a casino are approved by the State and allow staff to determine whether games are in compliance with compacts, were conducted from January 1999 through August 2002, and the Division has never conducted inventory reviews at six locations, which account for 6,091 electronic gaming devices and represent 42.4 percent of the games operating at all of the Indian gaming locations throughout Wisconsin.

To better ensure compliance with regulations and more completely and independently identify gaming revenue earned by the tribes, the Division has developed two systems—an electronic inventory system and a data collection system—that it expects to lead to more accurate and detailed monitoring of both the operation and the amount of revenue generated by electronic gaming devices. However, the information provided by these systems is limited because some tribes will not permit the systems to be installed or to operate at their casinos, and other tribes' compacts do not require installation and operation of these systems.

The electronic inventory system, for which the Division spent \$268,500 through June 2002:

- automates the process of receiving and updating electronic gaming device inventory data from the tribes; and
- enables the Division to quickly confirm whether electronic gaming devices in operation are the same as those that have been reported to the State.

The system is currently in operation for casinos operated by 9 of the 11 tribes. However, the ten gaming locations operated by the Ho-Chunk Nation and the Oneida Tribe of Indians, representing approximately 50 percent of electronic gaming devices in the state, are currently not part of this system because these tribes have not agreed to permit electronic monitoring of electronic gaming devices.

The electronic data collection system, for which the Division spent \$706,344 through June 2002, provides information on:

- transactions and various operations of electronic gaming devices;
- payout rates for each game; and
- total revenue earned from any game or group of games, or for all the games at a facility.

All but four of the tribes have either agreed to allow the State to collect financial and operational information through an electronic data collection system or have allowed this information to be collected without including specific language in their compacts. However, the system is not operational at 13 facilities, which have 56.5 percent of all electronic gaming devices.

We include recommendations for the Division to improve its enforcement efforts by conducting periodic audits and inventory reviews for all facilities, preparing audit plans, and giving priority to those casinos that have not yet been reviewed. In addition, if the Legislature or the Governor believes that the Division's current efforts do not adequately meet the goals of ensuring that Indian gaming is conducted in a fair manner or do not provide accurate information on all revenue generated by the casinos, the Legislature or the Governor may wish to consider developing a list of additional objectives to be included in future compact negotiations. For example, all tribes that wish to conduct gaming activities could be required to:

- install and make the inventory and electronic data collection systems operational at all of their gaming locations on an ongoing basis;
- provide the Division with any reports and data its staff request during on-site visits promptly, as is currently required by the Menominee tribe's compact agreement; and
- agree to the inclusion of penalty provisions within the compacts, which could be used if a tribe refuses to comply with the terms and conditions, such as providing the State with all records requested by the Division. These penalties could include fines or suspension of casino activities.

Certification of vendors is required by both s. 569.04, Wis. Stats., and the gaming compacts. The certification process requires the Division to screen vendors that provide gaming-related services or equipment, such as slot machines, consulting services, or electronic gaming devices to a tribal casino. In a prior audit report (report 99-19), we found that completion of initial certifications and re-certifications took longer than planned. The Division has made some progress in addressing these delays, but certifications completed in FY 2001-02 still averaged 497.5 days, and re-certifications averaged 831.2 days. We include a recommendation that the Division closely monitor the vendor certification process to ensure that processing times improve.

Both attendance and revenue from pari-mutuel racing have declined over time. From FY 1996-97 through FY 2001-02, annual track attendance decreased from 1.2 million to 626,911, and racetrack association revenue declined from \$30.3 million to \$16.0 million. This is largely due to the closing of two racetracks. Many also believe that

the expansion of Indian gaming has reduced interest in pari-mutuel wagering because those who enjoy gambling as a form of entertainment are more likely to visit casinos, which are typically open 24 hours most days of the year.

Revenue from pari-mutuel wagering, racetrack entrance fees, and fines assessed by the State on racetrack operators and on greyhound owners and trainers is distributed among those placing winning wagers; the racetrack associations, which are the owners and managers of the racetracks; municipalities in which racetracks are located; greyhound owners; and the State. Total state revenue from pari-mutuel activity declined from \$5.6 million in FY 1996-97 to \$3.3 million in FY 2001-02, primarily as a result of track closings.

The Division of Gaming is responsible for the oversight of pari-mutuel activities and employs a steward, a veterinarian, and a licensing clerk, as well as other staff, at each track. The most common violations found from 1996 through 2001 include dogs being over their permitted racing weights, expired vaccinations, and positive drug tests. In addition, the Division regulates racetrack kennels and private facilities that place greyhounds for adoption. In 2001, 319 greyhounds were adopted from racetrack facilities, and 868 were adopted from independent facilities. New policies implemented by the Division in August 2001 were developed to prevent adopted animals from being used in medical experiments. These policies were developed after it was found that 1,100 retired greyhounds had been sold to a research laboratory in Minnesota.

The Division also licenses organizations that conduct bingo and raffles, and it registers crane games, which are games requiring skill to win a prize. Since FY 1997-98, revenue from bingo activities and crane game registrations has declined, while revenue from raffle license fees has remained steady.

Finally, because two prior Audit Bureau reports (reports 98-5 and 99-19) raised concerns about funding of the Division's staff, we reviewed whether revenue sources for staff members' salaries are related to staff functions. We found that in FY 2000-01 and FY 2001-02, six positions were funded from sources unrelated or not fully related to these positions' responsibilities. We have included a recommendation that the Division implement a time recording system to track staff time by program area and that it report to the Joint Legislative Audit Committee and the Joint Committee on Finance by May 1, 2003, on the results of its efforts to track staff time and on its recommendations for changes in position funding where indicated by its analysis.

The Division of Gaming in the Department of Administration regulates gaming activities.

Since 1992, Wisconsin's racing, charitable gaming, and Indian gaming activities have been under the management of three state agencies: the Wisconsin Gaming Commission (until July 1996), the Wisconsin Gaming Board (until October 1997), and the Department of Administration. The Division of Gaming in the Department of Administration is currently responsible for monitoring and regulating tribal gaming operations through its Office of Indian Gaming. The Division also regulates all activities relating to pari-mutuel wagering (betting on dogs at racetracks), charitable gaming (bingo and raffles), and crane games, which are privately owned but regulated by the State.

Section 13.94(1)(eg), Wis. Stats., directs the Legislative Audit Bureau to complete an annual financial audit and a biennial performance evaluation of the Division of Gaming. Our audit of FY 1999-2000 and FY 2000-01 financial statements (report 02-11) was released in July 2002. As part of this performance evaluation, we analyzed:

- revenue and expenditures of tribal gaming operations, as well as the State's expenditures and revenue related to the regulation of Indian gaming, pari-mutuel wagering, bingo, raffles, and crane games;
- the Division's on-site and electronic monitoring of Indian gaming operations;
- the certification process used by the Office of Indian Gaming to approve vendors that provide gaming-related services or equipment to tribal casinos;
- racetrack attendance and amounts wagered;
- oversight responsibilities at the racetracks and for the greyhound adoption program;
- trends in charitable gaming and crane game activities and revenue; and
- funding allocations for staff positions in the Division.

In conducting our review, we examined financial records, regulatory data maintained by the Division, and data on staffing levels and positions. In addition, we interviewed the Division's managers and staff, as well as Department of Justice (DOJ) staff who are responsible for security and enforcement of gambling activity in Wisconsin, and we observed on-site procedures of racing and Indian gaming operations.

Division Authorized Staff

As shown in Table 1, the Division of Gaming's authorized staffing level for FY 2001-02 was 42.85 full-time equivalent (FTE) positions. Somewhat more than one-half of the Division's positions are devoted to the regulation of pari-mutuel racing, and approximately one-third are devoted to oversight of Indian gaming activities. All positions are funded with program revenue.

Table 1

Division of Gaming Position Authority for FY 2001-02

<u>Program Area</u>	<u>Number of Authorized FTE Positions</u>	<u>Percentage of Total</u>
Pari-mutuel racing	22.10	51.6%
Indian gaming	14.00	32.7
Bingo	4.00	9.3
Raffles and crane games	<u>2.75</u>	<u>6.4</u>
Total	42.85	100.0%

Division Revenue and Expenditures

The Division receives revenue from a number of sources, including:

- tribal payments provided under the terms of compact agreements with the State;
- a pari-mutuel tax on money wagered at racetracks;
- racing fees and fines;
- unclaimed racetrack winnings; and
- licenses and permit fees for gaming activities.

Division revenue increased from \$7.0 million in FY 1997-98 to \$28.6 million in FY 2001-02.

As shown in Table 2, total gaming revenue received by the State increased from approximately \$7.0 million in FY 1997-98 to \$28.6 million in FY 2001-02. This increase is attributable to the growth in Indian gaming revenue resulting from renegotiated compacts between the State and the tribes that took effect between 1998 and 2000. Eight of the 11 compacts provide that the additional funds paid to the State are to be used for purposes that include economic development initiatives to benefit Native Americans in Wisconsin and tourism. The Division's total expenditures and transfers to other state agencies also increased over this period. Expenditures grew from \$3.0 million in FY 1997-98 to \$3.8 million in FY 2001-02. Transfers to other state agencies increased from \$3.6 million to \$22.6 million.

Table 2

Gaming Revenue and Expenditures

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-2000</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>Percentage Change</u>
Revenue						
Indian gaming	\$ 731,604	\$ 400,385	\$21,909,103	\$24,581,356	\$24,507,114	3,249.8%
Racing	5,275,114	5,074,357	4,708,509	4,028,521	3,323,308	(37.0)
Bingo, raffles, and crane games	<u>953,325</u>	<u>892,231</u>	<u>788,587</u>	<u>767,547</u>	<u>761,926</u>	(20.1)
Total	\$6,960,043	\$6,366,973	\$27,406,199	\$29,377,424	\$28,592,348	310.8%
Transfers to State Agencies¹	\$3,648,880	\$3,550,505	\$21,534,759	\$27,875,466	\$22,608,209	519.6%
Expenditures						
Indian gaming	584,495	657,769	1,158,141	1,939,797	1,477,581	152.8%
Racing	2,191,762	2,019,255	1,919,275	2,059,179	1,923,110	(12.3)
Bingo, raffles, and crane games	<u>243,064</u>	<u>307,525</u>	<u>417,800</u>	<u>449,046</u>	<u>416,729</u>	71.4
Total	\$3,019,321	\$2,984,549	\$3,495,216	\$4,448,022	\$3,817,420	26.4%

¹ Includes amounts paid to DOJ for its gaming enforcement activities, which totaled \$1.0 million in FY 2001-02.

In 1999, voters approved an amendment to the Wisconsin Constitution relating to the use and distribution of gaming proceeds. This amendment requires that state revenue from the lottery, pari-mutuel racing, and charitable bingo—other than those funds used for the regulation and enforcement of these activities—must be used for property tax relief. To provide better insight into changes in the Division's revenue and expenditures, we analyzed in greater detail revenue and expenditure information for Indian gaming; pari-mutuel racing; and bingo, raffles, and crane games.

Indian Gaming Revenue and Expenditures

Within the past five years, the State has renegotiated gaming compacts with each of the 11 tribes operating casinos in Wisconsin. For FY 2001-02, 11 tribes were to pay the State \$24.0 million under the terms of these compacts. To assess the financial situation of Indian gaming in Wisconsin, we reviewed tribal revenue, expenditures, and net profits, as well as tribal payments made to the State. In addition, we reviewed issues the Legislature, the Governor, and the Department may wish to consider during the next round of compact negotiations.

Gaming Revenue Earned by Tribes

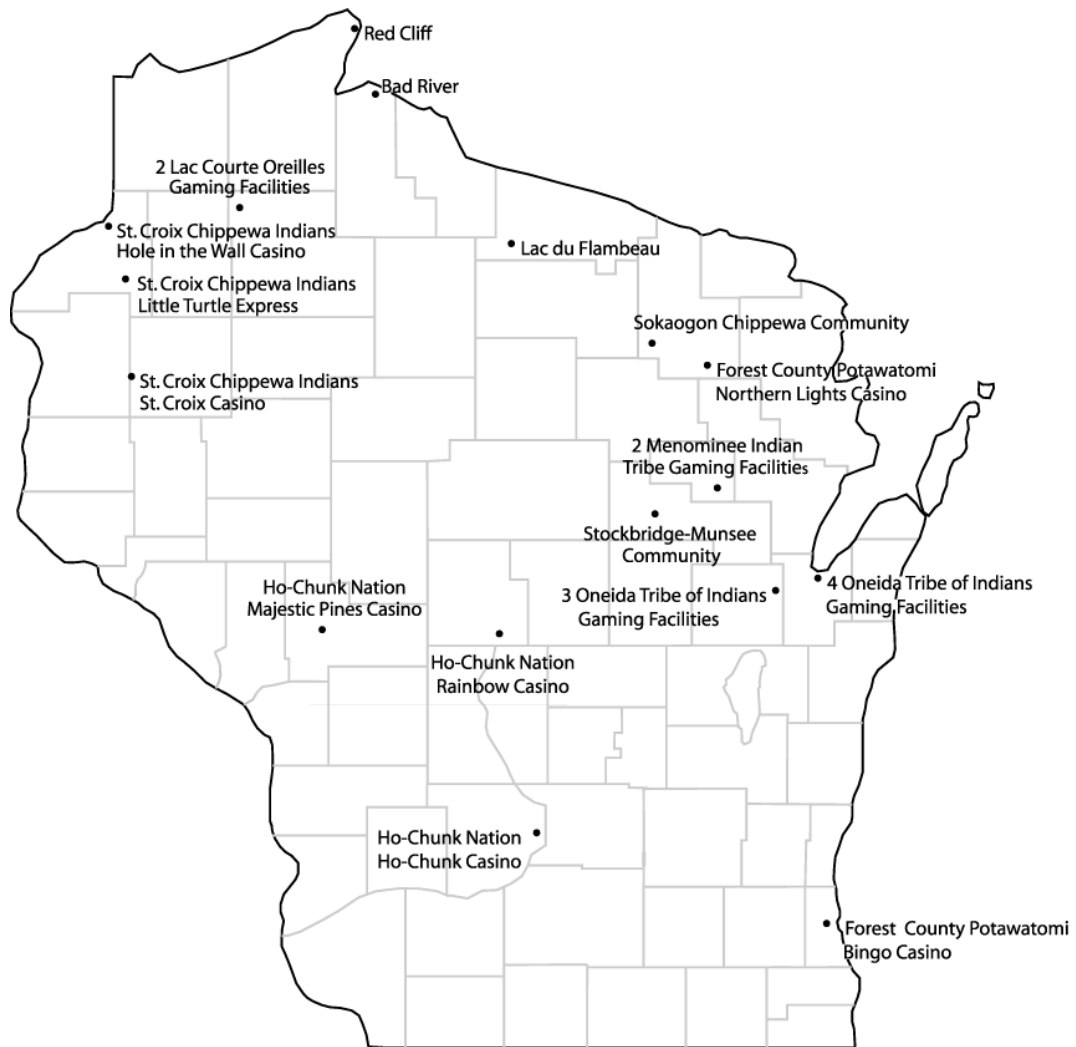
Tribes generate revenue through their Class III gaming activities (electronic gaming devices and blackjack); Class II gaming (bingo operations); and other activities associated with gaming, such as the operation of hotels, restaurants, and gift shops. Class I games conducted on Indian lands are under the exclusive jurisdiction of the tribes and are not subject to regulation by the State. Class I games include social games solely for prizes of minimal value or traditional forms of Indian gaming engaged in by individuals as a part of, or in connection with, tribal ceremonies or celebrations.

11 tribes operate 24 casinos throughout Wisconsin.

The compacts require each tribe to contract for an annual independent financial audit of the books and records of all Class III gaming activities and to submit it to the Division of Gaming and the Legislative Audit Bureau. It should be noted that because tribes that operate bingo games are not required to report Class II gaming revenue and expenditures to the State, the tribal revenue and expenditures reported may not include all Class II activities. For 2001, 7 of the 11 tribes reported Class II gaming revenue and expenditures. Division officials do not know whether any of the remaining four tribes offer bingo but choose not to provide the information to the State. As shown in Figure 1, tribes operate a total of 24 casinos statewide. Appendix 1 provides additional information on the location and size of these casinos.

Figure 1

Tribal Casinos in Wisconsin



Class III gaming net revenue increased by 47.8 percent from 1997 to 2001.

A 1996 Wisconsin Attorney General's informal opinion indicated the Audit Bureau may release revenue and expenditure information related to casino operations in aggregate form, provided that nothing in the disclosure could lead to the identification of a tribe, its members, employers, or operations. Consequently, the information we have included in this report is limited to the presentation of aggregated revenue and expenditures for the casinos. As shown in Table 3, tribal net gaming revenue, which is the amount wagered less the amount paid in winnings, has increased each year, growing from \$660.2 million in 1997 to \$970.9 million in 2001, or by 47.1 percent. The largest share of this increase was the result of revenue from Class III gaming, which increased by \$292.3 million, or 47.8 percent. However, it should be noted that not all tribes experienced increases in their net gaming revenue over this period.

Table 3

Net Tribal Revenue

<u>Revenue Type</u>	<u>1997¹</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Percentage Change</u>
Class III gaming	\$611,876,568	\$693,512,224	\$750,517,833	\$845,273,471	\$904,149,162	47.8%
Class II gaming ²	9,697,599	16,128,715	11,223,210	4,551,646	13,853,783	42.9
Non-gaming	<u>38,664,959</u>	<u>35,342,166</u>	<u>38,908,157</u>	<u>39,602,071</u>	<u>52,933,440</u>	<u>36.9</u>
Total	\$660,239,126	\$744,983,105	\$800,649,200	\$889,427,188	\$970,936,385	47.1%

¹Excludes data from one tribe that failed to submit a financial report for its 1996-97 fiscal year.

²Includes bingo revenue for four of the tribes in 1997 and 1998, and for seven of the tribes in 1999, 2000, and 2001.

From 1997 to 2001, tribal expenditures increased by 39.1 percent.

As shown in Table 4, tribal gaming expenditures increased from \$390.2 million in 1997 to \$542.7 million in 2001, or by 39.1 percent. The largest category of expenditures was general operations, which represented almost three-fourths of total expenditures in each year for costs such as employee salaries and fringe benefits, rent, equipment, maintenance, and supplies, as well as the amounts paid to the State for regulation and monitoring and the additional revenue paid from the renewed compacts in 2000 and 2001. From 1997 to 2001, expenditures for promotion and marketing increased by the largest percentage, from \$64.0 million to \$97.7 million, or by 52.6 percent, outpacing the overall growth in expenditures.

Table 4

Tribal Expenditures

Type	<u>1997¹</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Percentage <u>Change</u>
General operations	\$277,831,704	\$290,270,336	\$281,116,234	\$336,078,615	\$387,946,130	39.6%
Promotion and marketing	64,024,544	68,405,921	77,184,168	83,236,566	97,708,850	52.6
Depreciation	41,260,839	28,739,162	25,030,963	43,985,486	47,615,147	15.4
Other	<u>7,097,701</u>	<u>3,416,437</u>	<u>2,588,430</u>	<u>7,497,164</u>	<u>9,393,106</u>	<u>32.3</u>
Total	\$390,214,788	\$390,831,856	\$385,919,795	\$470,797,831	\$542,663,233	39.1%

¹Excludes data from one tribe that failed to submit a financial report for its 1996-97 fiscal year.

Since 1997, tribal profits have increased by \$158.2 million, or 58.6 percent.

As shown in Table 5, from 1997 through 2001, revenue in excess of expenditures, or profits, increased by \$158.2 million, or 58.6 percent. It should be noted that despite the significant growth in overall profits, some tribes experienced declining profits over this period.

Table 5

Tribal Profits

	<u>1997¹</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	Percentage <u>Change</u>
Net Revenue	\$660,239,126	\$744,983,105	\$800,649,200	\$889,427,188	\$970,936,385	47.1%
Expenditures	<u>(390,214,788)</u>	<u>(390,831,856)</u>	<u>(385,919,795)</u>	<u>(470,797,831)</u>	<u>(542,663,233)</u>	<u>39.1</u>
Profits	\$270,024,338	\$354,151,249	\$414,729,405	\$418,629,357	\$428,273,152	58.6%

¹Excludes data from one tribe that failed to submit a financial report for its 1996-97 fiscal year.

Tribal Payments to the State

The tribes pay the State \$350,000 annually to help fund gaming oversight and regulation.

Beginning with the original compacts, entered into in 1991 and 1992, and continuing with the current compacts that took effect between August 1998 and August 2000, the tribes have agreed to pay the State \$350,000 annually to help fund oversight and regulatory activities. Each tribe pays a percentage of the \$350,000, based on its share of the total amount wagered on Class III gaming statewide during the previous fiscal year. Also, the State can charge the tribes additional amounts for special investigations that it may conduct.

Under the current compacts, the tribes also agreed to make additional payments to the State. The additional amount that each tribe owes annually is based on its total net revenue from past gaming activities. Eight of the 11 compacts include provisions that the Governor will undertake his best efforts to spend these additional payments for economic development initiatives to benefit Native Americans in Wisconsin and tourism. Three compacts do not specifically address this issue. The Bad River Tribe was the first tribe to make these additional payments, paying the State \$172,500 in FY 1998-99.

In FY 2000-01, the tribes were required to pay the State an additional \$24.0 million.

As shown in Table 6, the amount due from the tribes has increased substantially since FY 1998-99, when earlier compacts were in effect. In FY 1999-2000, when 10 of the 11 tribes were required to contribute additional revenue under the renegotiated compacts, \$21.7 million was due. In FY 2000-01, when all 11 tribes were required to make payments and the required payments from 3 tribes increased, the amount due increased to \$24.0 million. The outstanding balances shown for FY 1999-2000 and FY 2000-01 are the result of nonpayment by two tribes. One tribe is expected to make its final payments to the State in December 2002. The other tribe is continuing to meet with state officials to resolve the issue of whether the amount owed should be reduced because of lower-than-expected revenue.

Table 6

Summary of Additional Tribal Payments

<u>Fiscal Year</u>	<u>Amount Due</u>	<u>Amount Paid</u>	<u>Outstanding Balance</u>
1998-99	\$ 172,500	\$ 172,500	—
1999-2000	21,725,528	21,562,387	\$163,141
2000-01	24,040,412	23,981,840	58,572
2001-02	24,041,756	23,931,797	109,959

As shown in Table 7, the amounts due the State from nine tribes for FY 2002-03 are the same as for FY 2001-02. The Lac Courte Oreilles owe \$16,800 less, and the Ho-Chunk Nation owe \$500,000 more.

Table 7

Additional Tribal Payments Scheduled for Fiscal Years 2001-02 and 2002-03

<u>Indian Tribe or Band</u>	<u>2001-02</u>	<u>2002-03</u>
Bad River ¹	\$ 230,000	\$ 230,000
Forest County Potawatomi Community of Wisconsin	6,375,000	6,375,000
Ho-Chunk Nation	7,500,000	8,000,000
Lac Courte Oreilles ¹	436,800	420,000
Lac du Flambeau ¹	738,900	738,900
Menominee Indian Tribe of Wisconsin	747,371	747,371
Oneida Tribe of Indians of Wisconsin	4,850,000	4,850,000
Red Cliff ¹	64,685	64,685
St. Croix Chippewa Indians of Wisconsin	2,191,000	2,191,000
Sokaogon Chippewa Community	258,000	258,000
Stockbridge-Munsee Community	<u>650,000</u>	<u>650,000</u>
Total	\$24,041,756	\$24,524,956

¹ Band of Lake Superior Chippewa Indians.

In addition to payments to the State, tribes may have agreements with local governments under which they make payments in lieu of taxes that are intended to fund local government operations. These payments are made in recognition of the increases in governmental services that are required as a result of casino operations. The State does not obtain information on these agreements.

Distribution of Tribal Payments

Funds from tribal payments are distributed through the budget process among several state agencies for a variety of purposes. Some tribes have raised concerns about the extent to which funds paid to the State directly benefit the tribes and the regions in which the casinos are located, as most of the compacts require. Based on its concerns about the State's use of tribal payments, one tribe withheld a \$4.9 million payment for three months in 2000. In March 2001, the tribe made its required payment.

State agencies receive tribal revenue for a variety of purposes.

In FY 2001-02, programs that received gaming revenue and primarily benefited Native Americans included:

- \$1.3 million for tribal law enforcement assistance and county law enforcement service grants administered by the Office of Justice Assistance;
- \$1.1 million for a medical assistance outreach and reimbursement program for Native Americans that is administered by the Department of Health and Family Services;
- \$364,500 for three Native American economic development programs administered by the Department of Commerce;
- \$320,000 for three programs providing educational assistance to Native American students administered by the Department of Public Instruction; and
- \$25,200 for Native American cultural programs administered by the Wisconsin Arts Board.

Other programs, however, appear to benefit a broader range of citizens, such as:

- \$4.0 million for general tourism marketing to the Department of Tourism;
- \$2.5 million to the State's Conservation Fund, administered by the Department of Natural Resources;
- \$809,900 for enforcement of snowmobile laws by the Department of Natural Resources;
- \$600,000 for work-based learning programs administered by the Department of Workforce Development; and
- \$500,000 for an elderly nutrition program administered by the Department of Health and Family Services that provides home-delivered and congregate meals.

The funding allocation for all gaming revenue among state agencies during the 2001-03 biennium is Appendix 2.

Considerations for Future Compacts

The current tribal gaming compacts begin to expire in August 2003, and several issues will need to be considered as the re-negotiation process begins. A primary consideration from the State's perspective will be the amount of gaming revenue provided to the State, both to fund oversight and regulatory costs and for other purposes. A primary consideration from the tribes' perspective will be the length of the compacts, limitations placed on gaming activities on tribal lands, and the format for compact renegotiations. To provide additional information that may assist in this process, we reviewed the outcomes of several other states' tribal gaming negotiations.

Tribal Payments in Other States

States that permit Indian gaming have adopted a range of agreements with their respective tribes. Like Wisconsin, some of these states have negotiated to receive a percentage of gaming revenue. Others receive a specified amount regardless of the tribes' revenue. To determine how tribal payments made to Wisconsin compare to the type and amount of payments made to other states, we contacted surrounding midwestern states that permit Indian gaming, as well as two other states with Indian gaming operations for which comparable data were available, which we identified through the National Indian Gaming Association and the National Conference of State Legislatures.

As shown in Table 8, Wisconsin receives a greater percentage of tribal gaming revenue than Iowa and Minnesota, which receive tribal payments only for regulatory costs. However, Wisconsin receives less than Connecticut, Michigan, and New Mexico, which, like Wisconsin, receive tribal gaming revenue for purposes broader than just helping to fund gaming regulatory costs. As in Wisconsin, the information other states are permitted to report to the public on Indian gaming operations is often limited by compacts.

Table 8

Tribal Payments to States
1999-2000¹

<u>State</u>	<u>Number of Casinos</u>	<u>Estimated Number of Electronic Gaming Tables and Devices</u>	<u>Reported Gaming Revenue (millions)</u>	<u>Revenue Paid to State (millions)</u>	<u>Percentage of Gaming Revenue Paid to State</u>
Connecticut	2	10,070	\$1,285.9	\$319.0	24.8%
Michigan	17	13,500	677.0 ²	22.9 ³	3.4
New Mexico	13	7,386	400.0	12.2	3.1 ⁴
Wisconsin	24	14,539 ⁵	889.4	21.9	2.5
Iowa	3	Not Available	Not Available	0.1	<1.0 (est.)
Minnesota	17	Not Available	Not Available	0.2	<1.0 (est.)

¹Represents data for the most recent year available, which was either calendar year 2000 or state fiscal year 1999-2000.

²Revenue is estimated.

³Nine tribes currently operate 17 casinos, but only 3 of those tribes are required to pay a portion of their slot machine revenues to the State. The other 14 pay only for regulatory oversight, which totaled \$275,000 in 2000.

⁴Not all tribes made their required payments in 2000; therefore, the overall percentage was less than the 8 percent required of all tribes.

⁵Number of machines provided by the Division of Gaming.

Tribes in Iowa and Minnesota only provide revenue to pay for regulatory costs of gaming.

Tribal payments to Iowa and Minnesota are significantly smaller than payments to the other states we reviewed because tribes in those states do not provide revenue for purposes other than regulation. In Iowa, two of the three tribes operating casinos each make a base payment of \$30,000 to the Iowa Department of Inspections and Appeals for costs associated with monitoring Indian gaming activities. In Minnesota, the tribes pay approximately \$150,000 annually to the State Department of Public Safety to help fund oversight. The Minnesota Indian Gaming Association indicates that tribes may also have independent agreements with local governments to provide additional funds, but no data on these arrangements are collected by the State of Minnesota.

In Connecticut, \$135.0 million is distributed among all the towns in that state according to a formula that considers factors such as the amount of property taxes collected and per capita income. The balance of the revenue received, \$184.0 million, supports Connecticut's general fund.

In Michigan, the nine tribes that operate casinos are required to contribute 2 percent of their net revenue from electronic gaming devices to local governments to help pay costs associated with public safety, to help offset local costs incurred by casino development, and to help offset foregone property taxes. Furthermore, three tribes are currently required to provide an additional 8 percent of their revenue from electronic gaming devices to Michigan's Strategic Fund, which promotes economic development, urban revitalization, and tourism. Compacts also require each tribe to make annual payments to cover the cost of compact oversight functions carried out by the State of Michigan. The amounts vary and are adjusted annually in accordance with the consumer price index, but they cannot exceed \$50,000 per year.

A total of \$12.2 million was paid by New Mexico's tribes in 2000 to help fund monitoring activities related to Indian gaming, as well as to contribute to that state's general fund. Amounts deposited in the general fund were not designated for a specific purpose because revenue generated from the casinos is believed to replace gross tax receipts that would otherwise have been collected on other types of entertainment, such as movies and dining.

Compact Negotiations

**Gaming compacts will
expire in 2003 and 2004.**

According to the National Conference of State Legislatures, 24 states have entered into a total of 267 compacts with tribes, and Wisconsin is 1 of 11 states that has granted statutory authority to its governor to negotiate Indian gaming compacts. Wisconsin's original compacts were in effect for seven years and included a provision under which they would be automatically extended for five-year periods unless either party wished to renegotiate. Both the State and the tribes wished to renegotiate after the seven-year term of the first compacts, and new agreements took effect from August 1998 through August 2000. As shown in Table 9, one compact was renewed for four years, and the other ten were renewed for five years. The compacts with the Lac Courte Oreilles and the Sokaogon Chippewa Community have the earliest termination dates: August 2003. Through April 2002, 10 of the 11 tribes had indicated interest in renegotiating their compacts.

Table 9

Current Indian Gaming Compacts in Wisconsin

<u>Indian Tribe or Band</u>	<u>Current Compact Effective Date</u>	<u>Current Compact Termination Date</u>
Lac Courte Oreilles ¹	August 16, 1998	August 16, 2003
Sokaogon Chippewa Community	August 22, 1998	August 22, 2003
Oneida Tribe of Indians of Wisconsin	November 8, 1998	November 8, 2003
Bad River ¹	December 12, 1998	December 12, 2003
St. Croix Chippewa Indians of Wisconsin	December 19, 1998	December 19, 2003
Red Cliff ¹	January 15, 1999	January 15, 2004
Stockbridge-Munsee Community	February 13, 1999	February 13, 2004
Forest County Potawatomi Community of Wisconsin	June 3, 1999	June 3, 2004
Ho-Chunk Nation ²	June 11, 1999	June 11, 2004
Lac du Flambeau ¹	July 1, 1999	July 1, 2004
Menominee Indian Tribe of Wisconsin	August 18, 2000	September 3, 2004

¹Band of Lake Superior Chippewa Indians.

²Signed original compact agreement as the Wisconsin Winnebago Tribe.

The majority of tribes in Wisconsin would like longer compacts.

A number of other states' tribal gaming compacts are in effect for longer periods, as shown in Table 10. At least 8 of the 11 tribal governments that have gaming compacts with Wisconsin have argued that longer-term compacts would allow them to obtain better financing terms for community development projects on tribal lands, contribute to the creation of new jobs, lead to economic diversification, and provide for the possibility of increased tribal payments to the State. Opponents of longer-term compacts believe that more frequent negotiations can be used to address new provisions or compliance issues.

Table 10

Length of Tribal Gaming Compacts

<u>State</u>	<u>Length of Compact</u>
Connecticut	Effective until the state or tribes request renegotiation
Minnesota	Effective until the state or tribes request renegotiation
California	20 years
Michigan	20 years for initial compact; 5-year periods after
New Mexico	15 years
Iowa	8 years
Wisconsin	5 years for 10 compacts; 4 years for 1 compact

Expanding Gaming Activities

Both the federal government and the Governor must approve any expansion of off-reservation gaming operations.

Compacts currently place limitations on gaming activities, such as the variety of games that may be offered, betting limits, and limits on casino locations. Some tribes have made proposals to operate off-reservation Class III gaming facilities, such as casinos at existing greyhound racing parks. However, the Governor maintains the right to turn down any proposals for the expansion of off-reservation Indian gaming activities once they have been approved by the federal Bureau of Indian Affairs. In the past, the Department of Administration has outlined a number of provisions that tribes must agree to before gaming operations may be expanded, including:

- obtaining local government support of any new casinos;
 - entering into tribal payment agreements with county and municipal governments;
 - closing one on-reservation casino for each off-reservation casino opened;
 - relinquishing sovereign immunity in all tribal casinos that are not located on reservation land; and
 - providing the State with more regulatory control over gaming activities in all tribal casinos that are not on reservation land.
-

The federal government has approved off-reservation gaming at the former St. Croix Meadows racetrack, and an application is pending for a site on the Illinois-Wisconsin state line. Wisconsin has not yet approved any proposal to expand Indian gaming at this time. Some have argued that allowing off-reservation casino gaming would make casinos in Wisconsin more competitive with those in nearby states and would increase revenue and employment opportunities for the tribes and the State. In addition, some communities have welcomed the opportunity for the increased revenue that expanded gaming operations would provide. On the other hand, overall tribal gaming profits have risen steadily under current restrictions, there has been no compelling evidence that competition from other states substantially reduces the gaming revenue generated by tribes in Wisconsin, and some believe that the expansion of casino operations will contribute to excessive and addictive gambling or harm other businesses competing for entertainment dollars.

Indian Gaming Enforcement Efforts

Tribal-state gaming compacts and state statutes provide that the Department of Administration is responsible for regulating Indian gaming activities. In FY 2001-02, the Department's Office of Indian Gaming spent \$1.5 million in carrying out its efforts with an authorized staff of 14.00 FTE positions. We reviewed the Division's efforts in overseeing and monitoring gaming activities, including the effectiveness of its efforts at certifying and conducting background investigations of individuals proposing to be Indian gaming vendors. Regulation of Indian gaming is needed to protect the interests of both casino patrons, who expect the games they play to be fair, and the State, to which an accurate disclosure of the total revenue tribes receive from gaming activities is important in negotiating payment schedules that may be included in future compacts. Although the Division has expanded its oversight role in recent years, additional efforts may be needed in order to provide adequate assurance that Indian gaming is conducted in a fair and lawful manner.

Indian Gaming Expenditures

Office of Indian Gaming expenditures to regulate gaming have more than doubled since FY 1997-98.

Office of Indian Gaming expenditures increased from \$584,495 in FY 1997-98 to \$1.5 million in FY 2001-02. As shown in Table 11, they reached a high of \$1.9 million in FY 2000-01, largely because of substantial data processing costs for an electronic system to monitor electronic gaming devices at casinos. Costs incurred by two private agencies under contract with the Division to conduct background investigations of companies selling goods and services to the Indian gaming industry accounted for the 204.8 percent increase in investigations and legal services from FY 1997-98 through FY 2001-02. The 2001-03 biennial budget provides \$1.4 million in program revenue for Indian gaming operations in FY 2002-03.

Table 11

Office of Indian Gaming Expenditures

<u>Type of Expenditure</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>Percentage Change</u>
Data processing	\$ 75,238	\$ 25,024	\$ 68,240	\$ 726,670	\$ 263,113	249.7%
Investigations and legal services	73,703	60,558	273,102	310,243	224,649	204.8
Staff salaries and fringe benefits	277,391	436,440	590,515	748,024	827,191	198.2
Other ¹	71,596	68,520	142,497	85,428	93,585	30.7
Travel	31,252	27,309	41,492	44,119	30,775	-1.5
Indirect cost allowance ²	31,560	9,900	10,392	11,172	21,960	-30.4
Supplies and equipment	<u>23,755</u>	<u>30,018</u>	<u>31,903</u>	<u>14,141</u>	<u>16,308</u>	-31.3
Total	\$584,495	\$657,769	\$1,158,141	\$1,939,797	\$1,477,581	152.8

¹Includes maintenance and repair, telephone services, janitorial services, and subscriptions and memberships.

²Paid to the Department of Administration.

As shown in Table 12, only two of the Division's 14.0 authorized FTE positions for Indian gaming activities were vacant at the end of FY 2001-02. Vacancies included one of the five positions responsible for the on-site monitoring of casino operations, as well as the financial program supervisor position.

Table 12

Office of Indian Gaming Authorized Positions
FY 2001-02

<u>Position Title</u>	<u>Authorized FTE Positions</u>	<u>Vacant Positions¹</u>
Director of Indian Gaming	1.0	0.0
Attorney	2.0	0.0
Auditor	5.0	1.0
Consumer Protection Investigator	2.0	0.0
Administrative Support	1.0	0.0
Contracts Specialist	1.0	0.0
Financial Program Supervisor	1.0	1.0
Program Assistant	<u>1.0</u>	<u>0.0</u>
Total	14.0	2.0

¹ Positions vacant at the end of FY 2001-02.

On-Site Monitoring of Casino Operations

Compact language and statutes provide the State with access and authority to oversee gaming operations.

Section 569.03, Wis. Stats., authorizes the Department of Administration to monitor the tribes' compliance with gaming operations agreed to in their compacts, and each of the tribes' compacts grants the State access and authority to review casino operations and facilities. This authority provides a mechanism for the Division to ensure both the integrity of gaming in the State and proper financial reporting.

In order to comply with both the regulatory language in compacts and the statutory monitoring requirements, staff in the Division conduct three types of on-site reviews:

- compliance audits, which determine whether casino operations are in compliance with compact terms;
- financial audits, which include a review to determine the accuracy of financial statements and, in some instances, to also determine whether the tribe's practices are consistent with compact or other gaming regulations; and

- inventory reviews, which determine whether electronic gaming devices at casinos are approved and comply with compact requirements.

Although the compacts give the Division of Gaming access and authority to review casino operations and facilities with or without notice, state regulatory visits have typically been announced to the tribes. Division staff believe this procedure encourages greater tribal cooperation and facilitates more effective use of staff resources.

To determine the extent to which the Division is meeting its oversight responsibilities, we reviewed the number of audits and reviews conducted from 1996 through August 2002, the findings from audits conducted in 2000 and 2001, and the Division's plans for future regulatory activities. We also reviewed the extent to which the Division has enforced corrective actions when compact violations were identified.

Compliance Audits

Compliance audits review conformity with compact terms.

Compliance audits are conducted at casinos and are intended to determine the extent to which gaming operations comply with compact terms. Division staff indicate that these audits are conducted when necessary. For example, an audit might be conducted if state officials or the Division identify a need for an on-site review. The need for compliance audits is also identified during state reviews of financial statements, and these audits may be a way of following up on previous audit findings.

The Division does not have a systematic workplan for staff to follow for each compliance audit. Rather, staff select from a list of audit procedures that could be performed. For example, they may:

- review whether electronic gaming devices are tamper-resistant, appropriately indicate that players must be 21 years of age (or 18 at the casinos operated by two tribes) to play, post clear descriptions of potential winnings and the odds of winning, and do not allow a player to bet more than \$5.00 at a time;

- review inventory, access to electronic gaming devices, and financial information;
- interview managers and other key personnel at the casino;
- test electronic gaming devices and the computer chips controlling their play; and
- review operations and security measures at a facility, including the emptying and filling of electronic gaming devices and the counting of money collected.

Compliance audits of the casinos operated by the Ho-Chunk Nation have never been conducted.

As shown in Table 13, of the 24 Class III gaming facilities in operation:

- compliance audits of the 3 Ho-Chunk facilities have never been conducted;
- 3 facilities have not been audited since 1996;
- 2 facilities have not been audited since 1997; and
- 1 facility has not been audited since 1999.

Division officials indicate that although compliance audits have never been conducted at any of the three Ho-Chunk facilities, some compliance issues have been addressed during financial audits. Seven compliance audits of other casinos were completed in 2000, three were completed in 2001, and five were completed through August 2002.

Table 13

Most Recent Compliance Audits
(Through August 2002)

<u>Indian Tribe or Band</u>	<u>Facility</u>	<u>Date of Most Recent Audit</u>
Ho-Chunk Nation	Ho-Chunk Casino	Never Conducted
	Majestic Pines Casino	Never Conducted
	Rainbow Casino	Never Conducted
St. Croix Chippewa Indians of Wisconsin	Hole in the Wall Casino	April 1996
	Little Turtle Express Casino	April 1996
	St. Croix Casino	April 1996
Forest County Potawatomi Community of Wisconsin	Bingo Casino	January 1997
	Northern Lights Casino	July 1997
Lac du Flambeau ¹	Lake of the Torches	February 1999
Bad River ¹	Bad River Casino	February 2000
Red Cliff ¹	Isle Vista Casino	March 2000
Sokaogon Chippewa Community	Mole Lake Regency Resort Casino	January 2000
Oneida Tribe of Indians of Wisconsin	Convenience Store-County Road E	October 2000
	Lucky U Convenience Store-Hwy. 29	October 2000
	Mason Street Casino	October 2000
	Convenience Store-State Hwy. 54	October 2000
	Irene Moore Activity Center	March 2001
	Oneida Bingo & Casino	March 2001
Menominee Indian Tribe of Wisconsin	Radisson Hotel and Conference Center	March 2001
	Crystal Palace Casino	January 2002
Menominee Nation Casino	Menominee Nation Casino	January 2002
Stockbridge-Munsee Community	Mohican North Star Casino	February 2002
Lac Courte Oreilles ¹	Lac Courte Oreilles Casino	June 2002
	Grindstone Creek Casino	June 2002

¹Band of Lake Superior Chippewa Indians.

The lack of compliance audits for the Ho-Chunk facilities is particularly troubling because they account for 27.1 percent of the electronic gaming devices and 21.3 percent of the blackjack tables operating in Wisconsin. Division officials indicate that in July 1998, and again in June 1999, gaming staff visited the Ho-Chunk Casino but were denied access to the records needed to complete their review.

Typical findings from the Division's compliance audits have included:

- blackjack dealers allowing play at tables without having appropriate supervisory personnel present on the floor;
- inadequate financial controls, such as not consistently verifying that coin boxes were emptied and failing to count and deposit money from electronic gaming devices; and
- comparisons of projected and actual cash holdings not being regularly completed by casino staff.

The Division has no authority to compel tribes to respond to audit findings.

Upon identifying specific findings, staff in the Division indicate they have, at times, requested that certain electronic gaming devices or areas of a casino be shut down until the problems can be corrected. Division officials note that the tribes have generally agreed to shut down electronic gaming devices temporarily and have removed games from play while staff are on-site. However, some tribes have refused to comply with requests for additional financial documentation. The Division has no authority to compel a tribe to address an audit finding, which makes regulation of casino operations difficult.

Financial Audits

The Division conducts financial audits to ensure accurate reporting of revenue.

In addition to conducting compliance audits, the Division monitors Indian gaming activity by conducting on-site financial audits and by reviewing financial statements that are prepared by private accounting firms hired by the tribes. Financial audits are typically conducted only after a problem has been identified by gaming staff or as follow-up to a review of independent audit statements. The purpose of the audits is to ensure revenue reporting is accurate and internal control procedures are adequate and appropriate. The Division's financial audit staff are also responsible for conducting background investigations of vendors seeking certification.

Since 2000, division staff have conducted 12 on-site financial audits at 10 different casinos.

The Division's efforts to conduct financial audits began in 2000, after three staff persons with accounting and other financial expertise were hired or reassigned to their current financial audit responsibilities. Division officials indicate that before that time, staff who reviewed financial statements did not have the expertise to determine whether the statements appropriately represented the tribes' earnings, or whether appropriate accounting procedures were being practiced at the casinos. Since 2000, the Division has conducted 12 on-site financial audits at 10 different casinos, including:

- 2 separate financial audits at 1 casino in 2000;
- 2 financial audits at 2 casinos in 2001, including 1 at the same casino that had been reviewed twice in 2000; and
- 8 financial audits at 8 different casinos through August 2002.

Current compact language does not require the tribes to implement financial audit recommendations.

Findings from on-site financial audits vary. For example, an audit of one casino revealed that casino managers were not examining variances between the computed and actual amounts bet and the amount retained by the casino after all winnings had been paid. Financial audits have also identified underreported revenue. For example, after conducting a financial audit at one casino, division staff identified a total of \$129,370 owed by the tribe as part of its share of the payments tribes make to the State to cover regulatory costs, because the tribe had not reported all of its gaming earnings in FY 1999-2000 and FY 2000-01. The tribe and the Division continue to meet to determine the amount owed by this tribe. Depending on the significance of its findings, the Division may recommend corrective action. However, as with compliance audit findings, compact language does not require the tribes to implement recommendations intended to correct problems identified in financial audits.

Through its reviews of the financial statements prepared for each tribe by independent auditors, the Division determines the portion of the \$350,000 in regulatory fees that each tribe must pay to the State based on its share of the total amount wagered on Class III gaming statewide during the previous fiscal year. In 2001, after completing these financial statement reviews, the Division determined that many findings were recurring. For example, the statements prepared for and submitted by one tribe underreported revenue by \$35,000 in 2000 and \$25,000 in 2001. As a result of this under-reporting, the tribe's request to reduce its share of the \$24.0 million payment to the State (as would have been permitted by its compact had the underreported revenue not been identified) was denied. In addition, a financial and security audit prepared by a private accounting firm was found to be inadequate, a concern that the Division shared with tribal leaders. Staff indicate that while some independent auditors conduct in-depth reviews, others do not. They believe that their lack of authority to compel implementation of recommended corrective actions limits the Division's ability to promote better accounting practices.

Inventory Reviews

A third way in which the Division of Gaming monitors gaming activity is by conducting on-site inventory reviews during which staff count the number of electronic gaming devices present within a gaming location and affix barcode numbers to each device. In addition, they may check each electronic gaming device for compliance with compact requirements, which may involve removing the game from play to test its internal computer chips. Staff may also attempt to verify that the electronic gaming device is properly reporting information to the casino's electronic gaming device accounting system, which is a mechanism the Division uses to automatically collect data on gaming activities.

We found that, compared to the number of casinos and electronic gaming devices in operation, the Division has completed relatively few on-site inventory reviews. From January 1999 through August 2002, 14 inventory reviews have been conducted, including reviews of:

- 1 casino in 1999;
- 10 casinos in 2000;
- 3 casinos in 2001; and
- no casinos in 2002.

Inventory reviews were never conducted at six gaming locations that account for 42.4 percent of all electronic gaming devices.

Furthermore, we found that the Division has never conducted on-site inventory reviews at three of the seven facilities operated by the Oneida Tribe or at any of the three facilities operated by the Ho-Chunk Nation. These six locations account for 6,091 electronic gaming devices, or 42.4 percent of the games operating at all of the Indian gaming locations in Wisconsin.

In 2002, the Division began to conduct inventory reconciliation reviews, which determine whether the Division's list of electronic gaming devices matches that submitted by the tribes. To date, it has completed these reviews for five casinos.

Staff reported that they have not been able to complete more on-site inventory reviews because of inadequate staffing levels, even though the amount of time needed to conduct these reviews appears minimal. For example, the Division reported that in August 2000, two staff completed an inventory review at the Potawatomi Bingo Casino in one day. We believe it is important that the Division conduct these reviews because, for example, during past inventory reviews staff have found recalled electronic gaming devices still in operation. Manufacturing defects in recalled devices may adversely affect a player's winnings.

Electronic Monitoring of Gaming Operations

Information provided by electronic monitoring systems is limited.

To better ensure compliance with regulations and more completely and independently identify gaming revenue earned by the tribes, the Division has developed two systems—an electronic inventory system and a data collection system—that are expected to lead to more accurate and detailed monitoring of both the operation and the amount of revenue generated by electronic gaming devices. However, the information provided by these systems is limited because some tribes will not permit the systems to be installed or to operate at their casinos, and other tribes' compacts do not require installation and operation of these systems.

In FY 1999-2000, the Legislature approved approximately \$880,000 in program revenue expenditure authority for the Division to develop and purchase both a new inventory and a data collection system. In FY 2000-01, the Division received an additional \$151,000 in program revenue expenditure authority for operation and maintenance costs of these two systems. These funds were placed in an unallotted reserve so that the Division could have access to them once costs were further defined and, ultimately, incurred.

Electronic Inventory System

Through June 2002, the Division spent approximately \$268,500 to create and modify an electronic inventory management system.

From July 1998 through June 2002, the Division spent approximately \$268,500 to create and later modify its electronic inventory management system. This expenditure estimate does not include undetermined costs associated with assistance provided by the Department of Administration's Office of Computer Systems. All gaming compacts require that whenever a tribe accepts an electronic gaming device for play at a casino, certain identifying information be reported to the State in order to verify that the game has been approved for play in Wisconsin by Gaming Laboratories International, Inc. Gaming Laboratories International, Inc., and vendors also submit identifying information about the electronic gaming devices to the State.

The electronic inventory system permits tracking of electronic gaming devices approved to be used in a casino.

The modified electronic inventory system automates the process of receiving and updating electronic gaming inventory data from the tribes and enables the Division's staff to quickly confirm, when they are conducting on-site audits, whether the electronic gaming devices in operation are the same as those that have been reported to the State. Previously, this information was sent via fax and recorded manually by staff in the Division, and transmission errors and backlogs occurred. The new system both automates and expedites the process of recording identifying information on each electronic gaming device in operation. Tribes can report the identifying information to the Division by using either an electronic mail system or a secure Web site established for this purpose.

Approximately 50 percent of electronic gaming devices in Wisconsin are not part of the Division's electronic inventory system.

The electronic inventory system is currently in operation for casinos operated by 9 of the 11 tribes. However, the ten gaming locations operated by two tribes—the Ho-Chunk Nation and the Oneida Tribe of Indians—are currently not part of the system, because these tribes have not agreed to permit electronic monitoring of gaming devices. Instead, they continue to send the inventory information via fax. Consequently, while staff maintain a separate paper copy inventory record for information that is not submitted through the electronic system, the Division lacks data in its electronic system for approximately 50 percent of electronic gaming devices in the state, and staff cannot use this system to easily verify the number and type of electronic gaming devices in operation at the Ho-Chunk and Oneida casinos. The Division does not track the number of electronic gaming devices in use and could only estimate the number of games delivered to the casinos and likely to be in operation. Staff indicated that the number changes daily when new electronic gaming devices arrive, when games are under repair, or when they are pulled from or placed on the casino floor for other reasons.

Identifying barcodes have not been affixed to approximately 81 percent of electronic gaming devices.

As part of the inventory system, staff affix unique barcode stickers to each electronic gaming device in a casino. Once the barcodes are affixed, inventory additions, deletions, and changes can be more easily tracked by scanning the barcode. However, barcodes have not been affixed to electronic gaming devices at 16 of the 24 casinos, representing 81.0 percent of all games. Division officials indicated that they cannot estimate when these remaining electronic gaming devices will have barcodes affixed because the vendor has not provided the Division with a sufficient number of barcodes. Although staff indicated that the new electronic data collection system will provide much of the same information provided by scanning a barcode, only on-site inspection can reveal whether unapproved games are being used.

Electronic Data Collection System

In 2000, the Division and its contractors began working with tribes to develop and install an electronic data collection system that provides information on transactions and various operations of electronic gaming devices. All but four of the tribes either agreed during the most recent compact negotiations to allow the State to collect financial and operational information from their electronic gaming devices through an electronic data collection system, or have allowed this information to be collected without including specific language in their compact. Through June 2002, a total of \$706,344 has been spent for the system. Annual operational costs are expected to be approximately \$111,000 through FY 2003-04.

The data collection system is intended to provide financial and operational information from each electronic gaming device.

The Division anticipates that all electronic gaming devices will eventually report data to a computer at the casino. These data will then be submitted electronically to the Division. Information reported to the Division from each facility using this system will help to identify irregularities or inconsistencies in gaming operations or financial reporting that could be pursued during compliance and financial audits. The system will enable division staff to determine:

- the identification numbers of all electronic gaming devices in operation at each facility;
- payout rates for each game, which the compacts require to be set at a minimum of 80 percent over the life of the electronic gaming device for games not affected by player skill, and at 83 percent for games that are affected by the skill of players;
- trend information on payout rates;
- whether games have been opened and memory or program chips removed, which could identify those games that have been inappropriately tampered with or which may cause a game to malfunction; and
- total revenue earned from any game, group of games, or for all the games at a specific facility.

It was expected that the information provided by the electronic data collection system would allow the Division to more efficiently select concerns that require on-site investigation, and be better informed about gaming operations and earnings at each of the facilities. Thus far, however, the system has not provided the expected information because it is either not installed, not operational, or not reporting complete data. As shown in Table 14, as of August 2002, the electronic data collection system was operational for 11 facilities managed by 7 tribes. This represents an estimated 43.5 percent of all electronic gaming devices. Division of Gaming officials indicate that as of August 2002, they were receiving complete information from all of the tribes with installed systems except for the Ho Chuck Nation. Division staff indicate they are working with the remaining tribes to allow the installation of the system and to improve the quality and compatibility of the information tribes submit.

Table 14

Status of Tribes and Locations Connected to the Data Collection System
(As of August 2002)

<u>Indian Tribe or Band</u>	<u>Installation Date</u>	<u>Operation Date</u>	<u>Estimated Percentage of Total Electronic Gaming Devices</u>
System Not Operational			
Lac Courte Oreilles ¹	None Planned ²	None Planned ²	4.2
Sokaogon Chippewa Community	None Planned ²	None Planned ²	2.6
Oneida Tribe of Indians of Wisconsin	Not Yet Determined	Not Yet Determined	22.6
Ho-Chunk Nation	June 2001	Not Yet Determined ³	<u>27.1</u>
Subtotal			56.5%
System Operational			
Lac du Flambeau ¹	February 2001	March 2001	5.9
Bad River ¹	June 2001	January 2002	2.6
Menominee Indian Tribe of Wisconsin	March 2001	January 2002	5.8
Red Cliff ¹	May 2001	May 2001	1.6
St. Croix Chippewa Indians of Wisconsin	September 2001	September 2001	10.6
Stockbridge-Munsee Community	November 2001	March 2002	7.0
Forest County Potawatomi Community of Wisconsin	January 2002	March 2002	<u>10.0</u>
Subtotal			43.5%
Total			100.0%

¹Band of Lake Superior Chippewa Indians.

²Current compact does not require tribe to install the data collection system.

³As of August 2002, the system was being tested at the Ho-Chunk casinos.

The four tribes that have not permitted the Division to connect their electronic gaming devices to the electronic data system or that do not yet have operational systems—the Ho-Chunk, the Lac Courte Oreilles, the Oneida, and the Sokaogon—operate 13 facilities with 8,108, or 56.5 percent, of the electronic gaming devices in Wisconsin. Division officials indicate the ongoing negotiations with these four tribes are attempting to reach an agreement that would allow the system to be installed and made operational. Currently:

- the Ho-Chunk Nation allowed technology to be installed in June 2001. Although the Division believed the tribe would permit the system to become operational by the end of 2002, division staff indicate the tribe is no longer cooperating. The Division does not know when the system will become operational;
- the Division continues to work with the Oneida to allow installation of the electronic data collection system at Oneida Bingo & Casino; however, no final agreement has been reached with the tribe, whose gaming compacts provide for this system; and
- the Sokaogon and the Lac Courte Oreilles do not currently have language in their gaming compacts requiring them to install the reporting system, although the Sokaogon have allowed barcodes to be placed on their games. The compacts with these two tribes are the first due to expire, in August 2003.

Enhancing Enforcement Efforts

Although the Division has recently undertaken additional audits and reviews and has developed two electronic systems that were intended to provide complete and detailed information on both the operation and the revenue generated by electronic gaming devices, enforcement efforts to date have been limited. By enhancing its current enforcement efforts, the Division could take steps to better ensure the integrity of Indian gaming in Wisconsin. In addition, if the Legislature and the Governor believe that the current amount of oversight to which the tribes have agreed is inadequate, they could consider requiring more precise and extensive enforcement language as a condition of entering into future Indian gaming compacts.

The Division has not conducted compliance, financial, and inventory audits on a regular basis for each facility, nor has every facility undergone each of these three types of audits. In addition, the Division has not developed an overall strategy to ensure that all relevant aspects of gaming operations are reviewed on a regular basis. While the current practice of developing an audit plan in response to specific concerns or issues can be a valid and useful approach, it would also be beneficial if the Division took a more systematic approach to its enforcement responsibilities by conducting regularly scheduled reviews. This would help to ensure the problems that may not be identified without such reviews are addressed. Moreover, if the Division were to include a standard set of audit topics in all of its reviews, in addition to those

issues intended to address factors unique to each gaming location, its staff would be better able to identify common concerns associated with Indian gaming and would be in a better position to recommend useful modifications to the State's gaming compacts.

Because staff believe that notifying the tribes before the start of audits is the best approach to their oversight efforts, the Division could establish an annual schedule that specifies which casinos will be reviewed and which topics will be included in the reviews, including following up on prior findings or concerns. Therefore, to improve its enforcement efforts, we recommend the Division of Gaming:

- conduct periodic on-site compliance audits, financial audits, and inventory reviews of all gaming locations at least once every three years;
- prepare an audit plan that identifies common issues that will be addressed in each and every audit or review, as well as the unique issues that will be included in reviews of each casino during on-site visits;
- give priority to conducting audits and reviews at those casinos that have not yet been reviewed; and
- include as part of each on-site review a determination of whether electronic gaming devices not approved for operation in Wisconsin are on the casino floors.

If the Legislature or the Governor believes that the Division's current efforts do not adequately meet the goals of ensuring the fairness of Indian gaming or do not provide accurate information on all revenue generated by the casinos, the Legislature or the Governor may wish to consider developing a list of additional objectives that could be included as part of future compact negotiations. These objectives could include requiring all tribes that wish to conduct gaming activities to:

- install and make the electronic inventory and electronic data collection systems operational at all of their gaming locations on an ongoing basis;
- promptly provide the Division with any reports and data its staff request during on-site visits, as is currently required by the Menominee tribe's compact agreement; and

- agree to the inclusion of penalty provisions within the compacts that could be used if a tribe refuses to comply with the terms and conditions of its compact, such as providing the State with all records requested by the Division. These penalties could include fines or suspension of casino activities.

Finally, if the Legislature believes that it has provided too much authority to the Governor in negotiating gaming compacts, it could consider amending statutes to include itself in the compact negotiation process.

Vendor Certifications

Vendors doing business with Wisconsin's gaming industry must be certified by the State.

Certification of vendors is required by both s. 569.04, Wis. Stats., and the tribal-state gaming compacts. The Division is required to screen vendors that provide gaming-related services or equipment, such as management consulting services or electronic gaming devices, to a tribal casino. Each vendor must receive certification by the Division before conducting business totaling more than \$10,000 in a calendar year. To conduct a certification investigation, the Division or outside investigators who contract with the Division review the vendor's financial statements and conduct personal background checks, while DOJ generally conducts any criminal background checks that are needed. The compacts also subject a vendor's certification to periodic review. To meet this requirement, the Division implemented a procedure whereby each vendor is re-certified on an annual basis. In a prior audit (report 99-19), we reported that initial certifications and re-certifications took longer than planned to complete, resulting in a number of initial certifications pending for long periods of time. Therefore, we reviewed the Division's progress in addressing this issue.

Vendor Certification Revenue

Vendors pay a fee at the time they apply for certification or re-certification that is based on whether they are located in-state or out-of-state, and on the type of service they are seeking to provide. By applying for re-certification before the initial 12-month certification period has ended, a vendor can avoid paying the additional cost of a new certification. An initial certification costs between \$2,700 and \$10,800, while a re-certification costs between \$1,000 and \$5,800. As shown in Table 15, revenue received from vendor certifications increased in each year except FY 1999-2000. From FY 1998-99 through FY 2001-02, the rate of increase was 66.5 percent. It should be noted that a large portion of the revenue increase resulted from additional charges the Division

assessed because applicants did not initially provide complete information. In addition, some re-certifications required complex investigations, for which the Division charged additional fees.

Table 15

Indian Gaming Vendor Certification Applications and Fees

<u>Fiscal Year</u>	<u>Applications Received</u>	<u>Initial Certification Fees</u>	<u>Re-certification Fees</u>	<u>Additional Charges</u>	<u>Total</u>	<u>Percentage Change</u>
1998-99	29	\$41,300	\$95,200	\$ 0	\$136,500	—
1999-2000	25	38,200	58,300	0	96,500	(29.3)%
2000-01	14	5,100	51,000	143,671	199,771	107.0
2001-02	26	61,200	95,300	70,818	227,318	13.8

Lack of Timely Certifications

The Division indicates that certification investigations are completed in an average of six months. However, as shown in Table 16, since FY 1998-99:

- the average amount of time to complete initial certifications ranged from 335.0 days, or 11 months, in FY 1998-99 to 881.6 days, or approximately 2.4 years, in FY 1999-2000; and
- the average amount of time to complete re-certifications ranged from 752.8 days, or 2.1 years, in FY 1998-99 to 882.9 days, or 2.4 years, in FY 2000-01.

Table 16

Average Completion Time of Certifications and Re-certifications

<u>Fiscal Year</u>	<u>Completed Initial Certifications</u>	<u>Average Days</u>	<u>Percentage Change</u>	<u>Completed Re-certifications</u>	<u>Average Days</u>	<u>Percentage Change</u>
1998-99	3	335.0	—	8	752.8	—
1999-2000	13	881.6	163.2%	34	825.9	9.7%
2000-01	0	—	—	16	882.9	6.9
2001-02	1	497.5	(43.6) ¹	19	831.2	(5.9)

¹ Change from FY 1999-2000 to FY 2001-02.

It should be noted that the Division has made some progress in addressing these delays. For example, re-certifications in FY 2001-02 took somewhat less time than those completed in FY 2000-01. However, we found that one re-certification completed in FY 2001-02 took 5.8 years to complete.

The Division had 11 initial certifications pending as of June 30, 2002. The time these applications were pending averaged 1.6 years and ranged from 8.5 months to 2.9 years.

Re-certification applications must be submitted annually even if a prior re-certification has not been completed. Because of delays in completing these re-certifications, caused by the Division or by any vendors who do not provide complete information, many vendors have more than one re-certification application pending.

In our 1999 evaluation, we reported that the re-certification process typically took between three and six months. From FY 1998-99 to FY 2001-02, the time needed to complete re-certifications increased by approximately 78.4 days, or 10.4 percent. We also found that as of June 30, 2002, 26 vendors had 37 pending re-certification applications. Of these applications, 17 had been pending for more than one year—including 9 for 2 or more years, and 1 for more than 4.5 years. In addition, a total of eight vendors had more than one re-certification application pending and, on average, these eight vendors had already waited approximately 21 months for re-certification.

The rate of denial for vendor certifications has declined each year since FY 1998-99.

Most certification requests are eventually approved. Moreover, as shown in Table 17, the percentage of certifications denied has declined each year since FY 1998-99, and in FY 2001-02 none were denied.

Table 17

Denial of Vendor Certifications

<u>Fiscal Year</u>	<u>Denied Certifications</u>	<u>Total Certifications</u>	<u>Percentage Denied</u>
1998-99	2	11	18.2%
1999-2000	4	47	8.5
2000-01	1	16	6.3
2001-02	<u>0</u>	<u>20</u>	0.0
Total	7	94	7.4

Division staff provided several reasons for the delays in completing initial certifications and re-certifications. First, they noted that it can take six to eight months for completion of a criminal background investigation. Second, they noted that both initial certifications and re-certifications involve lengthy processes during which investigators identify any areas of concern with the business or the individuals associated with the business. Third, they noted that several complex investigations were completed over the last two fiscal years, which required more time than usual to complete. Two private investigation agencies were hired by the Division to conduct several of these complex investigations.

A more in-depth financial review increases the time required to complete the certification process.

Fourth, in early 2001, the Division added a more in-depth review of the financial information vendors submit because staff believe that by examining the financial state of a business, it is possible to identify individuals who might be involved in organized crime, a particular concern of the gaming industry. Division officials believe that although this financial review increased the time required for an investigation, efficiencies will ultimately shorten the time needed to complete a more comprehensive investigation of vendors.

Fifth, through the end of 2001, the Division gave vendors many opportunities to submit complete materials for the vendor certification process. However, since January 2002, the Division has limited the amount of time it gives vendors to provide information, typically to

15 days. Division officials believe this will shorten the length of time required to complete investigations. Finally, the Division indicates that vendors do not always submit complete application materials. In 2002, the Division implemented a new application process in an attempt to address this concern.

The delays in the re-certification process do not appear to harm vendors, because already certified vendors can continue to provide services even after their initial 12-month certification periods have lapsed. Nor do delays financially harm the State, because vendors pay fees at the time of application. Nevertheless, in order to reduce the backlog and prevent future complications, we recommend the Division of Gaming closely monitor the vendor certification process to ensure that timeliness concerns are being adequately addressed.

Department of Justice Gaming Enforcement Activities

DOJ's Gaming Enforcement Bureau, which is part of its Division of Criminal Investigation, is responsible for law enforcement related to gaming and gambling activities. The Bureau has a director and four special agents. 2001 Wisconsin Act 16 provided DOJ with \$1.0 million in FY 2001-02 for gaming enforcement: \$875,900 from Indian gaming revenue, and \$123,900 from pari-mutuel revenue.

DOJ's gaming enforcement responsibilities include:

- investigating activities of all persons who may affect the operation or administration of tribal gaming, prosecuting violations of civil or criminal law, and prosecuting violations of compact provisions;
- investigating activities by the Department of Administration, its employees, and contractors, as well as violations by licensees and their employees and contractors;
- conducting criminal background investigations of, for example, Indian gaming and pari-mutuel vendors;
- initiating civil or criminal action in circuit court for violations of bingo laws; and

- investigating written complaints related to crane games, investigating whether games are operated without the required registration, prosecuting any violations of crane game law, and seizing any crane game owned by a person convicted of violating crane game law.

DOJ takes action in response to complaints of illegal gambling lodged primarily by citizens, law enforcement officials, and Division of Gaming officials when gaming issues fall outside of their purview. Cases are only opened for investigation if DOJ has reason to believe criminal activity has taken place. The largest numbers of complaints lodged and cases opened have been related to illegal electronic gaming devices, pull tabs, sports bets, and other types of gambling activities. In 2001, 31 complaint cases were opened. Of these, eight were related to Indian gaming, racing, and embezzlement of bingo funds.

Examples of Indian gaming investigations completed by DOJ in recent years have included investigations of:

- individuals working or playing in casinos using false identities;
- individuals who issued bad checks or who used stolen credit card numbers to purchase casino gift certificates; and
- allegations of cheating, fraud, or embezzlement at casinos.

It should be noted that DOJ also has enforcement responsibilities for pari-mutuel racing, charitable gaming, and crane games. For example, DOJ assists Division of Gaming staff with kennel inspections and searches and investigates allegations of embezzlement of bingo and raffle funds.

Pari-mutuel Racing

Only two racetracks remain in operation in Wisconsin.

A 1987 amendment to the Wisconsin Constitution authorized pari-mutuel wagering, a system in which bettors wager against each other on the results of races, leaving the racetrack owner and manager, or association, with no betting interest in racing outcomes. Since the passage of this amendment and adoption of 1987 Wisconsin Act 354, which authorized regulated on-track pari-mutuel wagering, the only racetracks licensed for operation in Wisconsin have been for dog racing. In addition, horse and dog races from racetracks in other states are broadcast at Wisconsin racetracks, and wagers can be placed on the results of these simulcast races. Of the five racetracks originally licensed, only two remain in operation, and total racetrack revenue has declined as a result of track closures and declining attendance at the two tracks still in operation. To assess the status of pari-mutuel wagering, we reviewed trends in attendance and amounts wagered, the number of violations and fines assessed by the Division in carrying out its regulatory responsibilities, and the Division's greyhound adoption program.

Trends in Attendance and Wagering

Racetrack attendance has declined 46.2 percent since FY 1996-97.

From FY 1996-97 through FY 2001-02, total track attendance, represented by those who pay for admission, decreased from 1,165,519 to 626,911, or by 46.2 percent. As shown in Table 18, total attendance declined in each year since FY 1996-97 and experienced the largest overall decrease, 17.7 percent, in FY 2001-02. The largest decrease in attendance at a single track occurred at the St. Croix Meadows Greyhound Racing Park in FY 2000-01, when attendance decreased by 23.3 percent. The St. Croix facility closed in August 2001 after consistent declines in revenue.

Table 18

Attendance at Racetracks
FY 1996-97 through FY 2001-02

<u>Fiscal Year</u>	<u>Wisconsin Dells</u>	<u>St. Croix Meadows</u>	<u>Geneva Lakes</u>	<u>Dairyland</u>	<u>Total</u>	<u>Percentage Change</u>
1996-97	59,267	146,892	270,771	688,589	1,165,519	–
1997-98	–	149,547	258,640	652,865	1,061,052	(9.0)%
1998-99	–	134,439	263,146	608,247	1,005,832	(5.2)
1999-2000	–	111,683	251,428	531,605	894,716	(11.0)
2000-01	–	85,618	219,351	457,029	761,998	(14.8)
2001-02	–	10,907 ¹	198,756	417,248	626,911	(17.7)

¹St. Croix Meadows Greyhound Racing Park closed in August 2001.

The amount wagered at racetracks has declined by 34.0 percent since FY 1996-97, to \$108.9 million.

As attendance has declined, the amount wagered at racetracks has also declined. Total wagers decreased from \$164.9 million in FY 1996-97 to \$108.9 million in FY 2001-02, which is a decline of 34.0 percent for that period. As shown in Table 19, the largest decrease occurred from FY 2000-01 to FY 2001-02, during which the amount wagered declined by 14.6 percent.

Table 19

Amounts Wagered at Each Track

<u>Fiscal Year</u>	<u>Wisconsin Dells</u>	<u>St. Croix Meadows</u>	<u>Geneva Lakes</u>	<u>Dairyland</u>	<u>Total</u>	<u>Percentage Change</u>
1996-97	\$4,196,519	\$19,112,768	\$33,652,600	\$107,914,202	\$164,876,089	–
1997-98	–	20,719,014	38,589,270	103,031,343	162,339,627	(1.5)%
1998-99	–	20,361,164	40,267,758	98,844,965	159,473,887	(1.8)
1999-2000	–	17,567,378	38,075,099	91,663,467	147,305,944	(7.6)
2000-01	–	13,894,618	33,486,017	80,168,900	127,549,535	(13.4)
2001-02	–	1,262,829 ¹	31,081,813	76,571,597	108,916,239	(14.6)

¹St. Croix Meadows Greyhound Racing Park closed in August 2001.

Neither racetrack attendance nor wagering is expected to increase in Wisconsin.

The Division does not expect racetrack attendance and wagering to increase significantly in the future because of declining consumer interest in racing and a perceived saturation of the gaming market. For example, the expansion of Indian gaming is believed to have reduced interest in pari-mutuel wagering because those who enjoy gambling as a form of entertainment are more likely to visit casinos, which are typically open 24 hours most days of the year. In addition, some believe that the increased use of the Internet for what are generally considered to be illegal gambling activities may be affecting interest in the State's pari-mutuel racing activities.

Distribution of Pari-mutuel Revenue

Revenue from pari-mutuel wagering is distributed among various groups, including the State.

The vast majority of pari-mutuel revenue is generated from wagers, but revenue is also generated from racetrack entrance fees and fines assessed by the State on racetrack operators and on greyhound owners and trainers. Revenue from wagers is distributed among:

- all those placing winning wagers;
- the racetrack association, which is the owner and manager of the racetrack;
- the municipality in which a racetrack is located;
- greyhound owners; and
- the State, which retains a portion of the amount wagered to fund regulation of pari-mutuel wagering.

Those individuals who wagered on a winning greyhound share in the winnings generated by all those who placed wagers. The amount distributed as winnings is based on the amount remaining after all other parties have been paid. Since 1997, the amount paid as winnings has averaged approximately 76.6 percent of total wagers.

Revenue for the Racing Association

For bets in which wagers are made on a single dog, the racing association receives 20 percent of total wagers. For bets in which wagers are made on more than one dog, such as betting on which dogs will finish first and second in a single race or betting on the outcome of the results of more than one race, the racing association receives 25 percent of the amount wagered.

Revenue received by the racing association has declined 47.2 percent since FY 1996-97.

From these amounts, the association pays a set percentage of total wagers to the greyhound owners and to the State, as specified by statute. The association retains the remainder, which since 1997 has averaged 17.0 percent of total wagers. In addition, the association receives all funds from the rounding of payouts of wagers and half of all admission fees, which have been \$1 per person since the racetracks first opened. As shown in Table 20, revenue retained by racetrack associations has declined substantially, falling from \$30.3 million in FY 1996-97 to almost \$16.0 million in FY 2001-02, or by 47.2 percent since FY 1996-97.

Table 20

Racetrack Association Revenue

<u>Fiscal Year</u>	<u>Revenue Retained¹</u>	<u>Percentage Change</u>
1996-97	\$30,266,051	—
1997-98	29,888,252	(1.2)%
1998-99	29,392,997	(1.7)
1999-2000	26,924,860	(8.4)
2000-01	23,011,486	(14.5)
2001-02	15,994,421	(30.5)

¹Represents the amount retained after greyhound owners and the State have been paid their shares.

Revenue for Greyhound Owners

Racing dogs are classed from A (for the fastest runners) to E (for slowest runners). In addition, there are maiden racing dogs, which have not yet won an official race. Owners' shares of total wagers are distributed based on points their dogs are assigned according to the dogs' speed class and the order in which they place in their races. The amounts paid to greyhound owners as prize money are called purses and are pooled and distributed to owners once each week. Purses consist of:

- 4.5 percent of total wagers for all live and simulcast dog races; and
- 2.75 percent of the amount wagered on simulcast horse races if there were live dog races at Wisconsin racetracks during the race performance period during which the horse race was broadcast, or 2.0 percent of the amount wagered on simulcast horse races if there were no live dog races.

Since FY 1996-97, greyhound owners have received an average of 3.8 percent of total wagers.

Since FY 1996-97, greyhound owners have received an average of 3.8 percent of total wagers. Over the last five years, as the number of races and amounts wagered have declined, so have the amounts paid to greyhound owners. As shown in Table 21, these payments declined from \$6.4 million to almost \$4.0 million from FY 1996-97 to FY 2001-02.

Table 21

Greyhound Owner Payments

<u>Fiscal Year</u>	<u>Purses Paid to Greyhound Owners</u>	<u>Percentage Change</u>
1996-97	\$6,381,524	—
1997-98	6,202,504	(2.8)%
1998-99	6,075,625	(2.0)
1999-2000	5,521,854	(9.1)
2000-01	4,690,818	(15.0)
2001-02	3,970,367	(15.4)

Revenue for the State

Only 50 percent of unclaimed prize money will now be available to the State.

The State receives from 2.0 percent to almost 9.0 percent of total wagers for live or simulcast greyhound races, and up to 3.0 percent of total wagers for simulcast horse races. The amount the State receives is based on the amount wagered on all race days during the calendar year. The State also receives revenue from fees for track oversight and supervision. For example, it receives a payment per race for the services of the stewards who preside over all live races. In addition, the State receives money collected from fines and assessed for violations, as well as from various licensing and associated fees. Until recently, the State also received all unclaimed prize money. However, with the passage of 2001 Wisconsin Act 16, the amount of unclaimed prize money the State receives was reduced as of July 2002, from 100 percent to 50 percent, while the racetrack association will retain the remaining 50 percent. Pari-mutuel racing revenue received by the State funds 22.10 authorized FTE positions that are devoted to the regulation of racing.

Revenue received by the State has declined by \$2.3 million since FY 1996-97.

As shown in Table 22, total state revenue from pari-mutuel activity declined from \$5.6 million in FY 1996-97 to \$3.3 million in FY 2001-02. The large decline in FY 2001-02 is primarily the result of the closing of the St. Croix Meadows facility in August 2001.

Table 22

State Racing Revenue

<u>Fiscal Year</u>	<u>State Revenue</u>	<u>Percentage Change</u>
1996-97	\$5,632,831	—
1997-98	5,275,114	(6.4)%
1998-99	5,074,357	(3.8)
1999-2000	4,708,509	(7.2)
2000-01	4,028,521	(14.4)
2001-02	3,323,308	(17.5)

Revenue for Localities

Admission fees are a source of revenue to racing associations as well as local governments. Of every \$1 admission fee charged, the racing association pays \$0.25 to the county and \$0.25 to the municipality in which a racetrack is located, to defray the costs of law enforcement, traffic control, and other expenditures related to racing. The racing association retains the remaining \$0.50. On days of live dog races, everyone who enters a racetrack, whether to view a live dog race or a simulcast race, pays the \$1 admission fee. The Dairyland Greyhound Park also charges admission at times when only simulcast races take place, and \$0.50 of each \$1 admission fee for simulcast-only performances is divided equally between the county and the municipality. The difference in charges is based on individual management philosophies: Dairyland management prefers to be consistent in charging for admissions each day an individual comes to its track, while management at Geneva Lakes believes it is not cost effective to collect admission fees for days on which only simulcast racing occurs.

Counties' and municipalities' revenue from racetracks declined 47.1 percent since FY 1996-97.

As attendance has decreased, so too has revenue received by local governments. As shown in Table 23, local government revenue declined from \$582,760 to \$308,002, which is 47.1 percent, from FY 1996-97 to FY 2001-02. The largest decrease over a single year occurred between FY 2000-01 and FY 2001-02, when local government revenue declined by 19.2 percent.

Table 23

County and Municipal Pari-mutuel Admission Fee Revenue

<u>Fiscal Year</u>	<u>Wisconsin Dells</u>	<u>St. Croix Meadows</u>	<u>Geneva Lakes</u>	<u>Dairyland</u>	<u>Total</u>	<u>Percentage Change</u>
1996-97	\$29,634	\$73,446	\$135,386	\$344,294	\$582,760	—
1997-98	—	74,774	129,320	326,432	530,526	(9.0)%
1998-99	—	67,220	131,574	304,124	502,918	(5.2)
1999-2000	—	55,842	125,714	265,398	446,954	(11.1)
2000-01	—	42,810	109,676	228,514	381,000	(14.8)
2001-02	—	0 ¹	99,378	208,624	308,002	(19.2)

¹ St. Croix Meadows did not charge admission during its last two months of operation (July and August 2001).

Oversight Responsibilities

Statutes provide the Division of Gaming with authority to promulgate rules for racing operations, ensure the humane treatment of the animals, and issue licenses for racing-related occupations. In order to protect the integrity of the races and to exercise its authority, the Division employs a steward, a veterinarian, and a licensing clerk at each track, as well as two additional stewards who divide their time between the two tracks as needed.

Steward Rulings

Stewards have authority to enforce racing requirements and settle disputes.

Stewards ensure that racing requirements are followed and settle any disputes that may arise. If a violation of racing rules occurs, stewards have the authority to suspend the license of the violator for a maximum of 90 days, impose a maximum fine of \$2,000, or request that the Division Administrator impose more severe penalties, including revocation and forfeiture of the individual's license.

Since 1996, seven types of violations have constituted over 50 percent of all violations identified by the Division. As shown in Table 24, total violations decreased from 540 to 248, or by 54.1 percent, from 1996 to 2001. The seven most common violations are listed in Table 24 and are defined in Appendix 3.

Table 24

Seven Most Common Violations
1996 through 2001

<u>Violation</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Total Violations	540	356	351	380	259	248
Most Common Violations						
Dog over racing weight	87	65	89	88	86	65
Expired vaccination	60	47	38	26	3	21
Failure to pay fine	54	18	27	27	23	27
Information withheld or misstated	42	5	5	20	14	13
Association cancelled race	34	28	11	22	17	9
Positive drug tests	18	31	37	62	35	37
Violating the integrity of racing ¹	<u>11</u>	<u>30</u>	<u>11</u>	<u>2</u>	<u>3</u>	<u>4</u>
Subtotal	306	224	218	247	181	176

¹This includes any activity that may be harmful to the racing program, such as a racing teller helping a bettor avoid paying taxes on winnings.

As shown in Table 25, fine assessments declined from 1996 through 2000 but increased significantly in 2001. The Division indicates that this increase was largely a result of large-scale kennel inspections conducted in 2000 and early 2001. Officials also believe there is little correlation between the total assessed in fines and the number of violations issued because of the great variation in fine amounts, which can range from \$25 to \$2,000 if imposed by a steward and can be even greater if assessed by the Division Administrator. The Division retains 50 percent of the revenue from fines to help pay administrative expenses; the other 50 percent is deposited in the State's Common School Fund.

Table 25

Racetrack Fines

<u>Year</u>	<u>Fines Assessed</u>	<u>Amount of Unpaid Fines</u>	<u>Percentage Remaining Unpaid¹</u>	<u>Number of Unpaid Fines</u>	<u>Number of Individuals</u>
1996	\$ 38,365	\$ 7,525	19.6%	37	31
1997	39,265	16,475	42.0	65	13
1998	33,051	14,176	42.9	21	16
1999	25,936	3,606	13.9	23	16
2000	18,770	1,745	9.3	19	14
2001	<u>38,920</u>	<u>12,330</u>	31.7	<u>27</u>	<u>17</u>
Total	\$194,307	\$55,857	28.7%	192	107

¹Represents percentage remaining unpaid at the end of each calendar year.

Since 1996, 28.7 percent of the fines levied have not been paid.

Regardless of the fine amount or the number of fines issued, payment is not always immediate. Since 1996, 28.7 percent of the fines levied remain unpaid. Once a fine is assessed, failure to pay results in suspension from the Wisconsin racing industry until payment is made or there is a forced revocation of the license. Division staff indicate that many individuals opt to leave the racing industry rather than pay outstanding fines, but data on the extent to which this occurred were not readily available. A license may also be suspended or revoked at the request of the Department of Revenue for delinquent taxes, which officials indicate has occurred.

We reviewed those fines of \$1,000 or more that remained unpaid from 1996 through 1999 and found that eight of nine unpaid fines resulted in licenses being revoked and that one individual's license remains suspended pending payment of a fine levied in August 1998. In addition, we reviewed all unpaid fines levied in 2000 and 2001. As shown in Table 26, this includes a total of 42 fines that remained unpaid at the end of 2001. For 37, or 88.0 percent, of these cases the offenders' licenses remain suspended.

Table 26

Disposition of Fines

<u>Disposition</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>	<u>Percentage of Total</u>
Unpaid, license suspended	14	23	37	88.0
Fine rescinded	2	0	2	4.8
Other ¹	2	0	2	4.8
License revoked	<u>0</u>	<u>1</u>	<u>1</u>	<u>2.4</u>
Total	18	24	42	100.0%

¹Represents fines that were assessed against individuals who were never licensed in Wisconsin.

An individual's license typically remains suspended until fines are paid.

Those individuals with suspended licenses are prohibited from working in the racing industry in Wisconsin and are generally barred from becoming licensed in other states. Once a fine is paid, licenses may be reinstated and the individual allowed to resume racing activities. In making these determinations, stewards may consider factors such as the history and severity of violations. Division staff indicate that suspending an individual's license and preventing individuals from working in the racing industry in Wisconsin or other states is a sufficient penalty for the violations committed and that pursuing individuals who do not pay fines would result in additional costs to the State without providing a greater remedy. Staff also indicate that racing staff in other states will typically contact the Division if applicants seeking to work in their racing industries note prior work experience in Wisconsin.

Greyhound Adoptions

Through 2001, 5,749 greyhounds have been adopted from Wisconsin racetrack adoption kennels.

Section 562.001, Wis. Stats., requires that all racing and related programs be operated in a humane manner. In 1990, when applications for Wisconsin's first pari-mutuel racing facilities were being submitted, the Racing Board (a predecessor of the Division of Gaming) implemented an initiative to require on-site adoption programs for retired greyhounds at each racetrack. A \$125 adoption fee is charged to cover the cost of examination, vaccination, and spaying or neutering. As shown in Table 27, through 2001, 5,749 greyhounds have been adopted from track adoption kennels regulated by the Division. In addition, families or individuals can adopt greyhounds through private adoption facilities, where racing kennels can also place their animals for adoption. The largest increase in the number of greyhounds adopted

occurred in 1993, after the Fox Valley racetrack closed in August of that year. Dogs from the Fox Valley racetrack were distributed among the other racetracks and private facilities for adoption.

Table 27

Greyhound Adoptions at Racetrack Facilities

<u>Year</u>	<u>Dairyland</u>	<u>St. Croix Meadows</u>	<u>Geneva Lakes</u>	<u>Wisconsin Dells</u>	<u>Fox Valley</u>	<u>Total</u>
1990	18	Not Open	60	81	38	197
1991	110	101	87	132	84	514
1992	150	148	106	110	76	590
1993	280	246	121	85	212	944
1994	208	137	130	97	—	572
1995	280	79	95	76	—	530
1996	335	110	114	169	—	728
1997	189	68	71	—	—	328
1998	203	73	65	—	—	341
1999	183	65	86	—	—	334
2000	185	71	96	—	—	352
2001	<u>134</u>	<u>114</u>	<u>71</u>	<u>—</u>	<u>—</u>	<u>319</u>
Total	2,275	1,212	1,102	750	410	5,749

A substantial number of adopted greyhounds are returned.

An extensive application process aids in matching greyhounds with potential owners, and information on those adopting dogs is collected and reported to the Division. In order to track adopted dogs and ensure healthy placements, the Division requests that dogs that are no longer wanted be returned to the facility from which they were adopted so that they can be placed again. A substantial number of animals are returned. In 2001, 26.8 percent of all adopted greyhounds were returned at Geneva Lakes, 22.4 percent at Dairyland, and 16.7 percent at St. Croix Meadows.

Independent Adoption Facilities

The Division has recently developed policies regulating off-site kennels that receive retired racing dogs from any of Wisconsin's tracks. These policies, which took effect on August 1, 2001, were implemented after it was discovered that in 2000, 1,100 retired greyhounds, that had been

sent to a private adoption facility had been sold to a research laboratory in Minnesota. Although some of the dogs were eventually recovered and adopted, over 950 were used in medical experiments. The policy implemented by the Division prohibits the sale, transfer, or donation of any greyhound from a Wisconsin racetrack to any exhibition or research facility. Division officials indicate they are pursuing legal action against the research laboratory with the assistance of the Department of Justice.

In addition, the policy requires private adoption groups to complete extensive applications and to register with the State. The application process includes background checks on kennel owners, and business histories are reviewed by the Division. Once registered, all facilities must provide the Division with a list of all Wisconsin greyhounds received, provide descriptions of the greyhounds' health every six months, and maintain placement records for the Division's review.

In recent years, the majority of greyhounds have been adopted from independent facilities.

As shown in Table 28, the number of greyhounds placed with and adopted from independent facilities increased 27.6 percent in 1998 and 55.6 percent in 1999. Greyhounds adopted from these facilities increased from 55.6 percent of all greyhound adoptions in 1997 to 73.1 percent in 2001. The Division attributes the marked increase in adoptions from independent facilities to its efforts to seek assistance from independent facilities in placing retired greyhounds, as well as to the limited capacity of racetrack adoption facilities and to racetrack closings in 1996 and 2001.

Table 28

Greyhound Adoptions from Independent Facilities
1997 through 2001

<u>Year</u>	<u>Independent Facility Adoptions</u>	<u>Percentage Change</u>	<u>Total Adoptions</u> ¹	<u>Percentage from Off-site Facilities</u>
1997	410	—	738	55.6%
1998	523	27.6%	864	60.5
1999	814	55.6	1,148	70.9
2000	829	1.8	1,181	70.2
2001	868	4.7	1,187	73.1

¹Includes adoptions through both off-site independent facilities and on-site racetrack facilities.

Bingo and raffles were made legal in Wisconsin in the 1970s.

Amendments to the Wisconsin Constitution made charitable bingo games legal in 1973 and raffles legal in 1977. The Office of Charitable Gaming in the Division of Gaming is responsible for developing policies and administrative rules related to bingo, raffles, and crane games (games requiring skill in order to receive a prize), and for administering the legal requirements for conducting these games. For FY 2001-02, the Office has been authorized 6.75 FTE positions. Organizations must be licensed to conduct bingo or raffles, and all crane games must be registered with the Division. In response to overall concerns about declining revenue, we reviewed the Division's regulation of these activities and the revenue they generate.

Bingo

Religious, charitable, service, fraternal, and veterans' organizations, and any organizations for which contributions are deductible for state and federal income tax purposes, are eligible to receive licenses to operate bingo-playing sessions in Wisconsin. Eligible organizations must have been in existence for at least three years, have established funding sources, and have at least 15 members. There are two varieties of bingo licenses:

- One type allows an organization to hold an unlimited number of sessions in the licensed year, but limits prizes to a maximum of \$250 for any one game and a total of \$1,000 for any playing session. Admission to these bingo sessions, as well as the cost of any playing card, cannot exceed \$1.00.
- A second type of license is issued for a limited period, allowing the licensed organization to conduct games during no more than four of five consecutive days in a year. Organizations obtaining limited licenses are not allowed to charge admission.

Bingo activity has declined each year since FY 1996-97.

Suppliers of bingo equipment are also required to be licensed. They pay the State an annual fee of \$25 and a supplementary fee ranging from \$10 to \$1,000, based on gross annual bingo supply sales. As shown in Table 29, the number of licenses issued to conduct bingo games has declined in each of the past five fiscal years, as has the number of bingo sessions conducted.

Table 29

Licenses Issued to Conduct Bingo Sessions¹

<u>Fiscal Year</u>	<u>Number of Licenses Issued</u>	<u>Percentage Change</u>	<u>Number of Sessions</u>	<u>Percentage Change</u>
1996-97	949	—	23,157	—
1997-98	775	(18.3)%	20,110	(13.2)%
1998-99	741	(4.4)	20,099	(0.1)
1999-2000	682	(8.0)	19,200	(4.5)
2000-01	609	(10.7)	17,256	(10.1)
2001-02	578	(5.1)	16,709	(3.2)

¹Excludes Indian gaming bingo, which is not regulated by the State.

Bingo revenue has declined 24.0 percent since FY 1997-98, to \$565,696 in FY 2001-02.

Before January 1999, all bingo receipts were taxed at the rate of 2.0 percent. Currently, bingo organizations' first \$30,000 in gross receipts are taxed 1.0 percent, and additional amounts are taxed 2.0 percent. As shown in Table 30, from FY 1997-98 through FY 2001-02, the State received a total of almost \$3.2 million in bingo revenue. For the last three fiscal years, approximately two-thirds of these funds were from the bingo receipt tax. Revenue has declined by 24.0 percent from FY 1997-98 through FY 2001-02 and is expected to continue to decline as the result of less activity and a reduction in the tax rate.

Table 30

State Revenue from Bingo Activities

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Percentage Change</u>
1997-98	\$ 744,272	—
1998-99	694,163	(6.7)%
1999-2000	602,904	(13.1)
2000-01	569,548	(5.5)
2001-02	<u>565,696</u>	(0.7)
Total	\$3,176,583	

Revenue from bingo activities is deposited into an appropriation for bingo general program operations. Unencumbered balances remaining after paying for bingo program operations are transferred to the State Lottery Fund for property tax relief. In FY 1999-2000, \$404,400 was transferred to the Lottery Fund; in FY 2000-01, the amount was \$671,128, and in FY 2001-02, \$310,698.

Gross receipts reported by licensed bingo organizations for February 2001 through January 2002 totaled \$21.7 million and averaged \$32,062; however, because the organizations have 60 days to report, both the total and the average may change. As shown in Table 31, as of August 2002, the gross receipts reported for 2000 or 2001 by the ten organizations with the highest gross receipts ranged from \$251,117 to \$1.0 million.

Table 31

Organizations with the Highest Gross Receipts from Bingo Activities
As of August 2002

<u>Organization</u>	<u>Location</u>	<u>Gross Receipts</u>
United Seniors of Wisconsin, Inc.	Milwaukee	\$1,009,965
Americanos Drum & Bugle Corp.	Menasha	873,216
St. Ann Interdenominational Church	West Allis	519,823
Our Lady Queen of Peace	Milwaukee	514,407
Cerebral Palsy Eisenhower	Milwaukee	385,649
Moose Lodge #197	Janesville	337,661
Golden Arrow Bowhunters	Waterford	318,312
Pioneer Booster Club	Milwaukee	271,629
Optimist Club	Malone	268,734
Elks Lodge #46	Milwaukee	251,117

The records of licensed bingo organizations are subject to audit by the Division at least every three years.

Licensed organizations must allow their bingo records to be open for inspection by local law enforcement or the Department of Administration at any time. Organizations are also subject to audits by the Division of Gaming at least once every three years. Each year, the Division conducts approximately 300 audits of both bingo and raffle organizations, and attempts are made to conduct annual audits of organizations with gross receipts of over \$1.0 million. In FY 2000-01, only one licensed bingo organization had more than \$1.0 million in gross receipts. Audits examine receipts and expenses, calculate inventories based on reported purchases and sales, and check for the legitimacy of bingo account expenditures.

The Division has the authority to suspend or revoke licenses for offenses such as participation of minors without a legal guardian, bingo workers participating in a game, failure to clearly announce and show chosen letters and numbers, and failure to post a list of prizes before the game. The Division can report suspected criminal activity, such as embezzlement of bingo funds, to the Department of Justice for investigation and further action. If the bingo organization is found to have violated statutes related to the conduct of bingo sessions, the circuit court can impose a fine of up to \$10,000, a sentence of nine months in prison, or both. Other violations may generate fines up to \$5,000 and/or 90-day jail sentences. The Division does not record data on the number or types of violations issued in a given year. However, staff indicate that few bingo violations are identified each year.

Raffles

The same types of charitable organizations eligible to obtain a license to conduct bingo in Wisconsin are also eligible to obtain a license to hold raffles. However, organizations that wish to apply are required to have been in operation for only one year. A \$25 annual license fee allows an organization to conduct up to 200 raffles in a year and one calendar raffle, which is a raffle in which multiple drawings are made on dates specified on a calendar. There are two types of raffle licenses issued:

- Class A raffle licenses limit the ticket price to a maximum of \$50 and allow the tickets to be sold on days other than the day of the drawing. Winners need not be in attendance at the drawing. Passage of 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, raised the maximum ticket price to \$100.
- Class B raffle tickets can cost no more than \$10, must be sold on the same day as the drawing, and require the winning individual to be in attendance at the drawing.

As shown in Table 32, the number of licenses issued to conduct raffles has remained fairly constant over the last six years. The increase from 6,874 in FY 1996-97 to 7,132 in FY 2001-02 is 3.8 percent.

Table 32

Raffle Licenses Issued

<u>Fiscal Year</u>	<u>Raffle Licenses</u>	<u>Percentage Change</u>
1996-97	6,874	—
1997-98	7,058	2.7 %
1998-99	7,003	(0.8)
1999-2000	7,089	1.2
2000-01	7,215	1.8
2001-02	7,132	(1.2)

The Division also conducts periodic audits of licensed raffle organizations. These organizations are required to report annually on the number of raffles conducted and prizes awarded, to provide detailed revenue and expenditure information relating to raffles, and to submit a list all persons who won over \$100 when raffle revenue exceeded \$50,000.

**The State received
\$182,550 in raffle
revenue in FY 2001-02.**

While the State receives \$25 annually for each license to conduct raffles, there are no additional fees imposed by the Division of Gaming on revenue from raffles. Revenue from raffle licensing fees is deposited in the joint appropriation for raffle and crane game general operations. Table 33 shows that revenue from raffles increased by 3.7 percent from FY 1997-98 to FY 2001-02. Statutes do not require unencumbered balances from the raffle and crane game appropriation to be transferred to the State Lottery Fund. However, 2001 Wisconsin Act 16 directed the Secretary of the Department of Administration to recommend lapses or transfers to the General Fund of program and segregated revenue totaling \$18.8 million in FY 2001-02 and FY 2002-03. In response to that directive, \$125,000 from the raffle and crane game oversight appropriation was transferred to the General Fund in February 2002.

Table 33

Raffle License Fee Revenue

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Percentage Change</u>
1997-98	\$176,053	—
1998-99	174,249	(1.0)%
1999-2000	173,323	(0.5)
2000-01	179,519	3.6
2001-02	<u>182,550</u>	1.7
Total	\$885,694	3.7%

The gross receipts reported by licensed raffle organizations for February 2001 through January 2002 totaled \$50.7 million and averaged \$5,921. As of August 2002, the gross receipts reported by the 25 licensed organizations with the highest receipts ranged from \$113,236 to \$639,481.

If organizations fail to report the appropriate information, their licenses may be suspended or revoked. Violations of raffle regulations can result in a maximum fine of \$1,000, and/or 30 days in jail, imposed by the circuit court. The Division does not maintain information on the number or disposition of fines and other enforcement actions. However, Department of Justice staff indicate that operating a raffle without a license is a fairly frequent violation. Division of Gaming officials note that small infractions are dealt with by the Division, whereas more serious violations are referred to the Department of Justice for investigation and prosecution. According to the Division, licenses are rarely revoked or suspended. Officials indicate that they do not track the number of revocations and suspensions because there are few violations, which are dealt with on an individual basis.

Crane Games

Crane game prizes are limited to toys and novelties, each having a wholesale value not to exceed seven times the charge to play the amusement device once or \$5, whichever is less. The Division of Gaming is responsible for providing all of the security services for crane game operations in the state, as well as monitoring crane game compliance with statutes, auditing crane game operations, investigating suspected violations of law, and reporting suspected gaming-related criminal activity to the Department of Justice for investigation.

**As of August 2002,
2,474 crane games were
registered to operate in
Wisconsin.**

A crane game may not be operated unless an owner is registered with the State, through the Division of Gaming, and an identification number is affixed to the game. The one-time registration fee is \$120 per game and is valid until canceled by the Department of Administration with the advice and consent of the Department of Justice, or the game is withdrawn by the registered owner. This would happen, for example, if the game no longer worked correctly or if the game was moved out of state. The Division must be notified of any movement of a game within the state. As of August 2002, there were 2,474 crane games registered to operate in Wisconsin.

As shown in Table 34, crane game license revenue is relatively small and has decreased by more than half in the past five years. Statutes do not require unencumbered balances from the raffle and crane game appropriation to be transferred to the State Lottery Fund. As noted, \$125,000 from the raffle and crane game oversight appropriation was transferred to the General Fund in February 2002.

Table 34

Crane Game License Revenue

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Percentage Change</u>
1997-98	\$ 33,000	—
1998-99	23,819	(27.8)%
1999-2000	12,360	(48.1)
2000-01	18,480	49.5
2001-02	<u>13,680</u>	(26.0)
Total	\$101,339	(58.5)

Violations of crane game regulations can result in a maximum fine of \$5,000, imposed by the circuit court and may also result in games being seized by the Department of Justice. However, the Division of Gaming indicates it does not have sufficient personnel to conduct regular checks of registered crane games and seek out unregistered games. Consequently, all Division of Gaming staff are encouraged to check for game registration when they see crane games and to notify the Division's Office of Charitable Gaming if unregistered games are found. Once notice is sent that the games must be registered, noncompliance will result in seizure by Department of Justice officials. In December 2001, Department of Justice investigators seized three unregistered crane games at Wisconsin truck stops.

Two prior Audit Bureau reports (reports 98-5 and 99-19) raised concerns regarding staffing in the Division of Gaming. Specifically, we identified instances in which the revenue sources funding some staff members' salaries were not related to the functions these staff were performing. To determine whether these issues had been addressed, we reviewed the allocation of positions within the Division of Gaming and the relationship between funding sources and program responsibilities.

Authorized Permanent Positions

**1999 Wisconsin Act 9
reallocated positions
within the Division to
reflect duties performed.**

The number of authorized positions allocated to the Division of Gaming has remained at 42.85 FTE over the last three biennia; however, the allocation of these positions among program areas has changed. Based on our 1998 finding that employee costs had been improperly allocated among the Division's operating appropriations, 1999 Wisconsin Act 9 reallocated positions in the Division to reflect the program areas in which staff were spending their time. As shown in Table 35, 5.75 FTE positions were deleted from racing program operations and 2.25 FTE positions were deleted from charitable and crane games, while an additional 4.0 FTE positions were authorized for the Office of Indian Gaming and 4.0 FTE positions were authorized for the newly created bingo program, which had been part of the raffle and crane game program before FY 1999-2000.

Table 35

Division of Gaming Position Authority (in FTE positions)

<u>Program Area</u>	<u>1997-99 Biennium</u>	<u>1999-2001 Biennium</u>	<u>2001-03 Biennium</u>
Bingo	Not Applicable	4.00	4.00
Raffles and Crane Games	5.00 ¹	2.75	2.75
Indian Gaming	10.00	14.00	14.00
Pari-mutuel Racing	<u>27.85</u>	<u>22.10</u>	<u>22.10</u>
Total	42.85	42.85	42.85

¹Includes bingo staff.

The Division also uses some limited-term employees, mostly at the racetracks, to assist with racing program oversight and the greyhound adoption program. We reviewed time-accounting forms submitted in December 2001 and found that the equivalent of 3.9 FTE positions, representing 15 different individuals, were employed as limited-term employees. Of these 3.9 FTE positions, 2.49 were located at the two racetracks, providing veterinary and technical services.

Funding of Permanent Positions

A few positions are funded from sources that are unrelated to duties performed.

To determine whether there was an adequate relationship between individual staff responsibilities and the funding sources used to support them, we analyzed program funding and position descriptions and interviewed staff on their day-to-day functions. Although most staff were funded in a manner consistent with their responsibilities, we found a few positions that are currently funded from sources unrelated to their responsibilities. For example:

- a consumer protection investigator in the Bureau of Racing who is primarily responsible for security investigations related to racing and bingo has been funded entirely from the appropriation for oversight of Indian gaming since FY 2000-01;
- the combined position of Deputy Division Administrator and Director of the Office of Indian Gaming, which reports to the Division Administrator on all aspects of Indian gaming, racing, and charitable gaming and serves as the primary liaison with the tribes, has been funded entirely from Indian gaming revenue since FY 2000-01;
- an attorney who advises the Division Administrator on legal matters for all gaming activities has been funded entirely from the appropriation for Indian gaming since FY 2000-01; and
- a program assistant in the Office of Charitable Gaming, who is responsible only for raffle-related matters and who previously had been funded entirely from the appropriation for oversight of raffles and crane games, was funded entirely from the appropriation for racing oversight in FY 2001-02.

Some positions have not been properly allocated across relevant funding sources.

In addition, funding to support positions in the Division of Gaming do not appear to have been properly allocated across relevant funding sources. For example, since FY 2000-01:

- the appropriations for the racing and bingo programs have each funded 50 percent of the salary for a program assistant who provides program and clerical support for the entire Division; and
- a financial specialist who performs financial duties in the areas of racing and charitable gaming regulation is funded by the racing and bingo oversight appropriations but not the raffle and crane game regulation appropriation, despite having responsibilities in this area.

Division officials indicate they plan to make accounting adjustments to correct the source of funds used to pay these personnel costs.

By reallocating positions and funding in the Division of Gaming through the enactment of 1999 Wisconsin Act 9, the Legislature and the Governor affirmed the principle that the funding of programs in the Division of Gaming should reflect the true costs borne by these programs. However, except for limited-term employee racing staff, the Division does not require its staff to track time in a way that would facilitate a routine review and adjustment of funding sources. Therefore, in order to ensure that state officials have the information they need to make these adjustments, we recommend the Division of Gaming implement a time recording system to track staff time by program area and report to the Joint Legislative Audit Committee and the Joint Committee on Finance by May 1, 2003, on the results of its efforts to track staff time and its recommendations for changes in position funding where indicated by its analysis.

Appendix 1

Indian Gaming Casinos
August 2002

<u>Indian Tribe or Band and Facility</u>	<u>City</u>	<u>Estimated Number of Electronic Gaming Devices</u>	<u>Estimated Number of Blackjack Tables¹</u>
Bad River²			
Bad River Casino	Odanah	374	6
Forest County Potawatomi Community of Wisconsin			
Bingo Casino	Milwaukee	993	25
Northern Lights Casino	Carter	449	9
Ho-Chunk Nation			
Ho-Chunk Casino	Baraboo	3,000	27
Majestic Pines Casino	Black River Falls	305	8
Rainbow Casino	Nekoosa	590	12
Lac Courte Oreilles²			
Lac Courte Oreilles Casino	Hayward	521	8
Grindstone Creek Casino	Hayward	75	0
Lac du Flambeau²			
Lake of the Torches	Lac du Flambeau	846	12
Menominee Indian Tribe			
Menominee Nation Casino	Keshena	565	12
Crystal Palace Casino	Keshena	268	0
Oneida Tribe of Indians of Wisconsin			
Oneida Bingo & Casino	Green Bay	1,197	42
Irene Moore Activity Center	Green Bay	961	0
Convenience Store-County Road E	Oneida	78	0
Lucky U Convenience Store-Highway 29	Oneida	62	0
Mason Street Casino	Green Bay	750	0
Convenience Store-State Highway 54	Oneida	151	0
Radisson Hotel and Conference Center	Green Bay	38	0
Red Cliff²			
Isle Vista Casino	Bayfield	231	4
St. Croix Chippewa Indians of Wisconsin			
St. Croix Casino	Turtle Lake	1,096	24
Hole in the Wall Casino	Danbury	314	8
Little Turtle Express Casino	Hertel	99	0
Sokaogon Chippewa Community			
Mole Lake Regency Resort Casino	Mole Lake	380	6
Stockbridge-Munsee Community			
Mohican North Star Casino	Bowler	<u>1,011</u>	<u>18</u>
Total		14,354	221

¹ Compacts do not limit the number of tables, and tribes are not required to inform the Division of Gaming when they increase or decrease the number in operation.

² Band of Lake Superior Chippewa Indians.

Appendix 2

Tribal Gaming Revenue Allocations 2001 Wisconsin Act 16

<u>Department and Purpose</u>	<u>Allocated Program Revenue</u>	
	<u>2001-02</u>	<u>2002-03</u>
Administration		
County Management	\$ 500,000	\$ 500,000
Administration—Division of Gaming		
Office of Indian Gaming	1,416,500	1,416,500
Administration—Office of Justice Assistance		
Tribal law enforcement assistance	1,050,000	1,050,000
County law enforcement services	<u>250,000</u>	<u>250,000</u>
Subtotal	1,300,000	1,300,000
Administration—Supervision and Management Land Information Board		
University of Wisconsin-Green Bay and the Oneida Tribe	250,000	250,000
Agriculture, Trade and Consumer Protection		
Payment to ethanol producers	0	1,900,000
Arts Board		
State aid for the arts to American Indian groups, individuals, organizations, and institutions	25,200	25,200
Commerce		
Gaming economic development and diversification; grants and loans	2,238,700	3,238,700
Manufacturing Extension Center grants	500,000	500,000
Physician, dentist, and health care provider loan assistance program; repayments and contracts	438,700	488,700
American Indian economic liaison, gaming grants specialist and program marketing	249,500	249,500
American Indian economic development; technical assistance	90,000	94,000
American Indian economic development—liaison grants	<u>25,000</u>	<u>25,000</u>
Subtotal	3,541,900	4,595,900

<u>Department and Purpose</u>	<u>Allocated Program Revenue</u>	
	<u>2001-02</u>	<u>2002-03</u>
Health and Family Services		
Medical assistance outreach and reimbursements for tribes	\$ 1,070,000	\$ 1,070,000
Medical block grants to tribal governing bodies	800,000	800,000
Elderly nutrition; home delivered and congregate meals	500,000	500,000
American Indian drug abuse prevention education	500,000	500,000
American Indian aids for social and mental health services	271,600	271,600
Minority health programs and public information grants	250,000	250,000
Cooperative American Indian health projects	<u>120,000</u>	<u>120,000</u>
Subtotal	3,511,600	3,511,600
Higher Educational Aids Board		
American Indian student assistance	779,800	787,600
Wisconsin higher education grants for tribal college students	<u>400,000</u>	<u>404,000</u>
Subtotal	1,179,800	1,191,600
Justice		
Indian gaming law enforcement	103,900	105,600
County—tribal programs, local assistance	708,400	708,400
County—tribal programs, state operations	<u>63,600</u>	<u>63,600</u>
Subtotal	875,900	877,600
Natural Resources		
Conservation fund	2,500,000	2,500,000
Transfer to parks	1,000,000	718,000
Law enforcement—snowmobile enforcement and safety training; service funds	809,900	809,900
Environmental aids—wastewater and drinking water grant	500,000	500,000
Environmental fund for brownfield efforts	500,000	1,000,000
Fishery resources for ceded territories	114,500	114,500
Elk management	100,600	100,600
Lac du Flambeau Band fishing and sports licenses	100,000	100,000
Reintroduction of the whooping crane	44,700	44,700
Trout management	20,000	20,000
Study of crop damage caused by wild cranes	20,000	0
Resource aids—Wisconsin Conservation Hall of Fame	<u>10,000</u>	<u>0</u>
Subtotal	5,719,700	5,907,700

<u>Department and Purpose</u>	<u>Allocated Program Revenue</u>	
	<u>2001-02</u>	<u>2002-03</u>
Public Instruction		
Alternative schools operating American Indian language and culture education programs	\$ 220,000	\$ 220,000
Grant to Beloit College	50,000	50,000
Special counselor grants	<u>50,000</u>	<u>0</u>
Subtotal	320,000	270,000
State Historical Society		
Northern Great Lakes Center	189,800	189,800
Native tribal history	25,000	0
Identification of unmarked American Indian gravesites	<u>15,000</u>	<u>0</u>
Subtotal	229,800	189,800
Tourism		
General tourism marketing	3,969,500	3,969,500
Wisconsin Travel Information Center	126,500	126,500
Kickapoo Valley Reserve law enforcement	<u>31,300</u>	<u>31,300</u>
Subtotal	4,127,300	4,127,300
Transportation		
West Canal Street reconstruction, service funds	1,250,000	1,250,000
University of Wisconsin System		
Aquaculture demonstration facility	0	250,000
Veterans Affairs		
Wisconsin Veterans Museum	228,700	176,900
American Indian services coordinator	56,400	56,400
American Indian grants	<u>15,000</u>	<u>15,000</u>
Subtotal	300,100	248,300
Workforce Development		
Work-based learning programs	600,000	600,000
Vocational rehabilitation services for tribes	350,000	350,000
Trade masters pilot program	<u>50,000</u>	<u>0</u>
Subtotal	<u>1,000,000</u>	<u>950,000</u>
Total Funds Allocated	\$25,547,800	\$28,761,500

Appendix 3

Most Common Racing Rule Violations

Dog over Racing Weight

Greyhounds weighing in over their designated racing weights. Division officials explained that this indicates improper care of a dog, whose meals and food portions should be carefully prescribed and monitored.

Expired Vaccination

Includes the expiration of vaccinations against diseases such as distemper or rabies, which could allow an animal to become infected and perhaps transmit the diseases to other dogs or to humans.

Failure to Pay Fine

Failure to pay fines assessed for violations such as an overweight dog, or failure to pay an imposed forfeiture resulting from a violation.

Information Withheld or Misstated

Withheld or misstated information on applications or other necessary paperwork. This may also apply to situations in which witnesses to a violation refuse to reveal what they know about the violation.

Association Cancelled Race

The last-minute cancellation of a race may be a violation and result in the assessment of a fine. Reasons for a cancellation may include a broken starter block, improper functioning of the lure, or a dog starting off in the wrong direction.

Positive Drug Tests

Includes administering an improper substance to a dog meant to alter its racing performance, such as cocaine or methamphetamines. Also included is the presence of any medication within a dog's bloodstream not on a list of authorized medications for that dog, whether the medication affects performance or not.

Violating the Integrity of Racing

A violation not in the best interest of the racing industry, such as a racing teller helping a bettor avoid paying taxes on winnings. This includes any activity that is not defined in statutes or administrative code but may be harmful to the racing program.



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT McCALLUM
GOVERNOR

GEORGE LIGHTBOURN
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DIVISION OF GAMING

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November 22, 2002

Janice Mueller, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

On behalf of the Wisconsin Department of Administration, Division of Gaming, thank you for the opportunity to respond to the Legislative Audit Bureau's biennial performance evaluation as required by s. 13.94(1)(eg) of the Wisconsin Statutes. Prior to addressing the noted findings and recommendations, the Division of Gaming wants to take this opportunity to recognize the substantial dedication of time and effort that was put forth by the members of the audit team throughout the conduct of the evaluation. The participating staff representing the Legislative Audit Bureau took the time to become familiar with the respective program areas and developed an understanding of the issues and challenges confronting the Division of Gaming. This produced a relationship of cooperation and open communication that enabled meaningful discussions to occur in regard to the development of the final report.

The Division of Gaming has reviewed the noted findings and recommendations as identified by the Legislative Audit Bureau. Based on this review, the Division of Gaming will address each recommendation and describe the efforts that will be initiated to fulfill the recommendations based on the findings contained in the report. Additionally, the Division of Gaming will address several of the issues regarding specific program findings.

The first recommendation addresses the development of an audit schedule for the completion of on-site compliance audits, financial audits and inventory reviews of all gaming locations at least once every three years. The Division of Gaming will adhere to the recommendation and will begin the implementation of a schedule to meet this objective. With the eleven Tribes conducting gaming at twenty-three locations, the recommendation to conduct an on-site audit of each gaming location every three years accurately reflects the staffing level of the Division of Gaming. This time schedule also correctly recognizes issues involved in the conduct of such on-site reviews, including audit preparation, the conduct of the audit, the analysis of the information and the issuance of the final report. Also, to more effectively and efficiently utilize Division of Gaming resources, future on-site audits of the Tribal gaming facilities will include all aspects of compliance verification, including financial, operational and inventory reviews.

The second recommendation is in regard to preparation of an audit plan that identifies common issues that will be addressed in each audit, as well as unique concerns that will be included as part of the on-site reviews. Consistent with this recommendation, the Division of Gaming has developed and implemented an audit plan that provides operational procedures that are to be followed for each type of audit conducted. Prior to the commencement of an on-site audit, the Division of Gaming requests extensive documentation from all relevant areas of the gaming operation. Based on the analysis of this information, specific areas of concern are identified and targeted reviews are incorporated into the audit to address these areas. Additionally, all audits include a review of the following areas for compliance:

- Cage/Vault Department
- Slot Department
- Table Games Department
- Surveillance Department
- Internal Audit Department
- Accounting Department
- MIS Department
- Drop and Count Department

The third recommendation is to prioritize the scheduling of audits at gaming locations that have not been recently reviewed. The Division of Gaming currently has a one-year audit schedule based upon the date of each gaming facilities' most recent audit. To fulfill the recommendation, the Division of Gaming will modify this schedule to cover a three-year period. Additionally, the audit report expresses concern and makes note of the time that has lapsed since the conduct of audits with the Ho-Chunk Nation and the St. Croix Chippewa Indians. To address this finding, the Division of Gaming will perform audits, using the developed audit plan standards, in December 2002 and January 2003 of the two noted Tribes.

Related to the upcoming audit at the Ho-Chunk Nation gaming facilities, the report also addresses the shortfall of compliance audits at these locations in the past. For purposes of clarification, the Division of Gaming performed financial audits at all three Ho-Chunk Nation gaming locations in 2002. Even though they were not termed a compliance audit, the financial audit program includes verification of compliance in many aspects of the gaming facilities' operations, similar to a compliance audit.

During the recent Ho-Chunk Nation financial audit, the areas of review included slot operations, table game operations, and assessment of the audit and accounting procedures for these areas. The conduct of these audits included the review of work papers, financial reports, slot accounting reports and interviews with key personnel in each area.

The review of slot operations includes verification of fill and jackpot slips, exception reports, investigation of variances of more than +/- 3% of actual to theoretical hold or any other large or unusual fluctuations in electronic games of chance. The review of table game operations includes verification of fill and credit slips, open and close forms and review of the Master Game Summary Sheet. This also includes a review of large or unusual fluctuations in the table game hold percentage report and verification that fluctuations are investigated and documented by the Accounting Manager.

The financial audit program, as was conducted at the Ho-Chunk Nation gaming facilities, is designed to verify compliance to the Compacts and Minimum Internal Control Standards as well as the AICPA Guide to Auditing Casinos. Although the Division of Gaming refers to this as a financial audit, as previously noted, the areas reviewed overlap with the compliance audit. All audits conducted by the Division of Gaming are compliance audits and include the review of casino operations. To avoid any future uncertainty regarding the type of audit conducted, the Division of Gaming is combining all forthcoming audits under the single heading of Compliance Audit, which will include all aspects of compliance verification of gaming operations including financial, operational and inventory.

The fourth recommendation is to include as part of each on-site review, a determination of whether electronic gaming devices not approved for operation in Wisconsin are on the gaming facility floors and operational. Through the Division of Gaming's design and development of an electronic notification system, that is consistent with the Compact requirements pertaining to the installation and removal notifications, such a finding can be determined. Wisconsin Tribes, manufacturers and distributors of electronic games of chance, prior to the installation of such machines in tribal gaming facilities, electronically provide notice to the Division of Gaming regarding each machine. This enables the Division of Gaming to be notified of the types of machines that are being shipped, the date of installation and then verified against a listing of approved machines provided by the independent gaming test laboratory. The electronic notification system provides the Division of Gaming the opportunity to verify the compliance of electronic games of chance with the Compact requirements prior to installation.

From information received in part by the electronic notification system, a current inventory of the electronic games of chance at all gaming locations is maintained. The report expresses concern that on-site inventory reviews have not been conducted at all gaming locations. The Division of Gaming will conduct on-site inventory reviews when an upgrade to the electronic notification system is completed and such reviews will continue as part of each audit.

The report also includes the recommendation the Division of Gaming closely monitor the vendor certification process to ensure that timeliness concerns are being adequately addressed. As a result of the last audit of the Legislative Audit Bureau, the Division of Gaming took steps to eliminate the backlog of vendor applications. This included a review of the application backlog and a determination that if a vendor had multiple applications pending, they would be processed simultaneously. Although the findings appear that specific investigations took a lengthy period to complete, it was due to the fact such investigations were part of several years of applications being processed together rather than each individually, which contributed to the extended processing time noted.

Based on the efforts to address the application backlog and process multiple years simultaneously, the Division of Gaming is pleased to report that there is no longer a backlog of vendor investigations. Additionally, since August 2002, the Division of Gaming has completed 11 additional vendor investigations. Subsequently, the amount of time to review and process both current and future applications will be greatly reduced. To assist in this effort, the Division of Gaming has implemented the use of a multi-jurisdictional disclosure statement. This statement is in use by nearly all-major gaming jurisdictions and has already been completed by a number of vendors. Use of the multi-jurisdictional form will streamline the application process and reduce the amount of staff time to attain a complete and accurate application. Furthermore, the Division of Gaming is implementing the electronic

submission of vendor applications that will assist in the review process regarding omissions and will further expedite the review process.

A concluding point to be considered with regard to the length of an investigation is to keep in perspective that such application reviews are to determine the fitness of the applicant to conduct business in the State of Wisconsin. The background reviews address the applicant's prior activities, criminal record if any, reputation, habits and associations. The reviews also make a determination if the applicant poses a threat to the public interest or to the effective regulation and control of gaming, or creates or enhances the dangers of unsuitable, unfair, or illegal practices or methods in the operation of gaming and the related business and financial operations. As such, the quality of all applicant investigations performed by the Division of Gaming will continue to take precedence to ensure that the highest standards of integrity are maintained by those participating in Wisconsin's gaming industry.

The final recommendation is to implement a time recording system to track staff work hours by program areas. For those particular positions that have responsibilities in multiple program areas within the Division of Gaming, a time study will be implemented. This will enable the Division of Gaming to monitor and determine the amount of staff time that is dedicated to program duties outside the position funding source and modify the funding allocation reflective of the duties and responsibilities of the noted positions.

Related to the funding of permanent positions, the report notes a consumer protection investigator and program assistant with duties in a specific program area being funded from another program area. Reports received and reviewed each pay period by the Division of Gaming indicated the referenced positions were allocated to the correct program in which the positions were performing their assigned duties. The Division of Gaming was unaware an inconsistency existed regarding the funding appropriation, which was contained in a different report.

Upon discovery of the variation between the reported and actual funding source, the Division of Gaming has obtained all relevant payroll reports from the Department of Administration Bureau of Personnel and has reviewed all positions to verify the funding source. The Division of Gaming will also conduct a quarterly review of the applicable budget and payroll reports to ensure the accuracy of all staff funding allocations. And furthermore, the Division of Gaming will request that accounting adjustments be made to the appropriate programs to correct the source of funding used to pay these positions over the noted period.

In closing, again thank you for the opportunity to respond to this audit and for the careful examination conducted by the Legislative Audit Bureau of the numerous issues and challenges confronting the Division of Gaming and Wisconsin's gaming industry. The review and recommendations that have been provided will assist the Division of Gaming in improving its operational performance in fulfilling its regulatory responsibilities in all program areas. The Division of Gaming accepts the findings and is fully committed to implement the recommendations and meet the objectives contained in the report.

Sincerely,



F. Scott Seepaniak
Administrator